

In this Issue

Asia Pacific: Managing the Risks of a Financial Downturn.....404

The Asia-Pacific region, credited as being the dynamo of the current growth prospects worldwide, faces new emerging risks which could lead to stormy weather ahead. According to a new policy brief by the UN Economic and Social Commission for Asia and the Pacific, a four-track approach can help contain possible the risks.

Agreements that Curtail Policy Space.....406

Much of the criticisms against the intrusion into the sovereign policy space of developing nations has been directed in recent years to 'agreements' crafted in the World Trade Organisation. UNCTAD's latest Trade and Development Report 2006 presents an inventory of such agreements.

On the Washington Consensus, Globalization & Neoliberalism.....414

"From a perspective of the South, we can not change the world we live in but we can change how we live in that given world. By doing so, the South can accumulate power to change the world itself." That is the considered opinion of Aldo Ferrer, former Minister of Economy of Argentina, and a former Member of the South Commission.

Reclaiming Development: Independent Thought & Caribbean Community..415

That is the title of Professor Kari Levitt's recent book, a collection of her writings over 30 years. She is Emerita Professor of Economics at McGill University and a former George Beckford Professor of Political Economy at the University of the West Indies. A tribute to her writings by Norman Girvan, member of the South Centre Board.

Don't Run After Foreign Experts - Prof Asit Biswas.....418

"Developing countries must not fall prey to the current syndrome of what I call solution-in-search-of-a-problem approach which is now very popular with the donors and international institutions." That is the opinion of Prof. Asit Biswas, who runs the Third World Centre for Water Management in Mexico, and who was awarded the 2006 Stockholm Water Prize.

More in this Issue

Moving the Multilateral Trade Regime Forward.....	422
'World Bank and IFM Conditionality: A Development Injustice.....	424
South Centre News	429
Editorial: Will the Doha Round Deliver for the MDGs.....	430

ASIA PACIFIC: MANAGING THE RISKS OF A FINANCIAL DOWNTURN

The Asia-Pacific region, credited as being the dynamo of the current growth prospects worldwide, faces new emerging risks which could lead to stormy weather ahead. According to a new policy brief by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), a four-track approach can help contain possible the risks. Following are extracts from the report.

Recent volatility in the Asia-Pacific financial markets has raised questions about the stability of economies in the region. Though the markets have been quiet in the last few days, there are new risks emerging which may lead to more stormy weather ahead. How well is the region prepared to handle financial shocks? Can they lead to another economic crisis? This policy brief examines what factors drive the current market volatility, and whether regional economies are protected against an economic meltdown. UNESCAP recommends a four-track approach for Asia-Pacific economies to manage the risks present in the global environment.

Buying Frenzy

International portfolio investors have been steadily buying shares in Asia since 2004 and driving up prices in the process. The region saw US\$ 39 billion in inflows - or 63 per cent of developing country net portfolio equity investment - in 2005. The most popular equity markets were China, India and Thailand. Investors also bought a wide range of other assets - both developed and emerging market bonds and commodities.

Buying was fuelled by both external and internal factors:

- The external push was low interest rates in developed countries, especially in Japan and the United States. The United States interest rate fell steadily from 6.50 per cent in 2001 to 1 per cent by mid-2003. Japan maintained a zero per cent interest rate since 2001. The booming portfolio flows to Asia were encouraged by borrowing in cheap foreign currencies, especially the yen and the dollar,

to fund the buying of equities and other assets.

- The internal pull was the attractiveness of Asian equity prices compared with other investment options.

Essentially, these prices looked cheap compared with earnings prospects of Asian companies in coming years, driven by strong economic growth across the region.

- Investors have preferred particular sectors depending on country conditions. For example, consumption-related equities such as banks and real estate were important in India and China, whereas commodity stocks have been important in commodity producing economies such as Indonesia.
- Diverse non-equity asset prices also soared as investors looked for other ways to earn higher returns. Commodity prices especially benefited, partly because of their perceived link to strong demand from growing Asian economies, particularly metals such as gold, copper and zinc.

What a Difference a Few Weeks Make...

The panorama abruptly altered on 10 May 2006 when global equity prices tumbled across the world. Asia Pacific share markets fell throughout May and June, experiencing their biggest monthly decline since September 2002. After a brief respite at the end of June, equity markets were volatile again in July. All countries in the region have been affected, suffering record falls for the year. Commodity

markets also moved significantly downwards. By mid-June the copper price had declined 25 per cent and the price of gold by 23 per cent from their peaks in May.

The initial trigger was the interest rate hike by the U.S. Federal Reserve in its monthly meeting on 10 May 2006 to 5 per cent. This was unforeseen by investors as they had expected the interest rate to remain unchanged at 4.75 per cent. Although the United States had already raised interest rates 16 times since 2004, earlier increases had been generally factored in by investors. The United States move to tighten monetary policy in May was preceded by large reduction by Japan of its liquidity from March onwards. The effect of these two developments was to reduce the international money available to invest in Asian assets.

The latest round of equity market instability has been caused by concerns about the recent political situation in the Middle East and its impact on oil prices. The rise in United States interest rates has also caused more long-term worries about future United States growth. Higher interest rates can dampen growth through reducing consumption and investment directly and also through lowering people's wealth by reducing house prices. The combined effect of these knocks to United States consumption would impact Asian exports. Exporting companies in the region may have decreased future earnings growth and this concern is impacting their share prices.

Better Prepared This Time

Instability in Asian financial markets causes worry in the region because the bitter memories of the 1997 crisis are still fresh. Current events do not

signal a crisis and countries are much stronger now:

- Countries in the region are now in a stronger position to handle turbulence. In 1997, the selling of Asian assets was based on fears about the countries' macroeconomic fundamentals due to their high external debt and untenable fixed exchange rate systems. Countries now have more flexible exchange rate regimes and high foreign exchange reserves. The region also has the world's best growth prospects. For example, India released data in May showing that exports and industrial production were at their highest levels in the past six months. China's GDP growth in the second quarter of 2006 was at a record 11.3 per cent, the fastest rate in more than a decade.
- This time around assets across the world were sold in unison after the current oil price and United States interest rate rises. Asian equities were not especially targeted as in 1997. Latin American and emerging European country stock markets, including Mexico, Brazil, Turkey and the Russian Federation, suffered large declines.
- Asian countries depend less on portfolio inflows as an investment source. Therefore any outflows would have a smaller impact. The contribution of foreign direct investment has risen as compared to a decade ago. Portfolio inflows are also smaller in absolute terms. There is a reduced prevalence of currency and maturity mismatches in borrowing. The proportion of financing through foreign debt is lower, as is its short-term component.
- Countries have better banking systems. Profitability of banks has been increasing over recent years. Capital adequacy ratios are generally rising across Asia and are mostly well above the 8 per cent recommended

international minimum. Non-performing loans have been reduced in most countries.

A Healthy Correction?

According to current expectations of Asian dynamism, the equity market decline could be viewed as a healthy, necessary, and relatively moderate correction. The price/earnings (P/E) ratio - price of a company's shares relative to the company's future earnings - a main method for investors to value share prices, shows that shares in some Asian markets had become overvalued as compared to the emerging market average. However, the recent correction seems to be moving share prices back closer to more sustainable levels.

Some other equity markets, such as Thailand, Hong Kong, China and Singapore, had already been seeing declining P/E ratios over the last two years and therefore the sell-off was not linked to fears of overvaluation. Overall, the equity market revaluation serves to align share values more reasonably with companies' and countries' future performance, after a period of over exuberance driven by the lack of returns in developed country asset markets.

All is Not Well – Several Downside Risks Exist

At the moment Asian economic fundamentals remain robust. There are however several downside risks largely coming from developments outside the region:

- High and rising oil prices are the main threat to the prospects of net oil importing economies in the region. High oil prices have already pushed up inflation in the region and hurt the current accounts balances of oil-importers. Further price rises would also require painful adjustment including further reduction of fuel subsidies and raising of interest rates.
- Further rises in developed country interest rates, in par-

ticular in the United States, the Eurozone and Japan, are possible if inflation shows signs of momentum in these economies. The result may be a global economic slowdown. Asian economies would be affected by a drop in the demand for their exports, and through pressure to increase their own interest rates.

- Some Asian countries have seen large housing price rises over recent years. A significant increase in interest rates may impact mortgage borrowers and owners of housing assets, leading to decreased consumption. Governments in the region are increasingly aware of the issue and some have taken steps to gradually control real estate prices.
- While the above reasons are possible triggers for a loss of investor interest in countries in the region, capital outflows may be exaggerated by overreaction and also by contagion from outflows in other countries. This behaviour is commonly observed in financial crises, such as in 1997, and is difficult to stop once it is in motion. The risk has been heightened by the increase in hedge funds and credit-financed investment in this region in recent years. A further sharp drop in asset prices can set off a negative cross-country chain reaction through these channels.

Towards a Strong & Flexible Economy: A 4-track Approach

As Asian economies are becoming more integrated into the global economy, they also face a higher risk from the constantly shifting global environment. It is increasingly important to build strong and flexible economies that can weather global shocks and adapt to new realities. Establishing solid macroeconomic and microeconomic fundamentals, healthy financial sectors, and regional cooperation in financial markets are crucial in this endeavour:

1. Countries must ensure solid macroeconomic fundamentals to maintain investor confidence and sustain economic growth. Key elements are moderate and stable inflation; sound fiscal policies that ensure low budget deficits and sustainable debt burdens; and flexible exchange rates regimes that can absorb external shocks and reduce currency mismatches in borrowing.
2. Countries must develop healthy financial sectors to build confidence and benefit from capital inflows. This requires well-developed regulatory structures to be in place to prevent bad debt. Independence and a competitive environment for banks to ensure efficient credit allocation and pricing are also necessary. Authorities must keep pace with the great diversity of complex new products being used in regional financial markets. Of particular note are the rapidly growing areas of credit derivatives and structured credit. Knowledge and risk management systems should be updated to ensure early warning of any adverse flows.
3. Countries must have robust microeconomic foundations to ensure the efficiency of the economic system. A basic requirement is clear property rights, overseen by a strong judiciary, that allow companies and institutions to operate effectively and transparently. The labour market should be flexible enough to adjust to economic downturns. Social safety nets have to be developed further to prevent people falling into hardship during such periods. Key areas to address are unemployment insurance, and pensions.
4. Countries must improve regional cooperation to lessen the impact of financial market volatility. There have already been positive moves in this direction. The ASEAN+3 economies are sharing information about portfolio flows, collaborating in regulatory activities, and have established a financial support mechanism against disruptive capital movements through the Chiang Mai Initiative for currency swaps. The funds available for financial support are not sufficient as a primary means of response compared to the scale of possible need. The effectiveness of regional surveillance on country domestic policies needs to be improved. It is important to extend cooperation in these issues to other countries in the region.

AGREEMENTS THAT CURTAIL POLICY SPACE

*Much of the criticisms against the intrusion into the sovereign policy space of developing nations has been directed in recent years to 'agreements' crafted in the World Trade Organisation. An instructive compilation of these agreements is contained in UNCTAD's latest **Trade and Development Report 2006**. The following extracts are taken from the report, its section 'Restrictions imposed by international agreements on policy autonomy: an inventory.' Four specific agreements are examined.*

Unlike monetary and financial multilateral arrangements, the multilateral trading regime is organized around a set of negotiated, binding and enforceable rules and commitments. Negotiated under the aegis of the GATT/WTO, these rules provide the basis for regulating international trade. The core principles of this regime are reciprocity and non-discrimination, as reflected in the most-favoured nation (MFN) rule and the commitment to national treatment (i.e. equal treatment of domestic and foreign goods and enterprises in domestic markets). Leaving aside a number of general exceptions, as well as exemptions that specifically apply to developing

countries, the multilateral trading regime is thus intended to provide what is often called a "level playing field", by extending the same legal rights and obligations to all member States of the WTO.

Since the mid-1980s, rapid and broad-based trade liberalization has been a central condition attached to loans from multilateral lending organizations, as well as to aid flows and debt relief from major developed-country donors. But the current wide scope of multilateral governance in the area of trade is associated with the Uruguay Round Agreements (URAs) and the establishment of the WTO in 1995. The

Uruguay Round (UR) brought about industrial tariff reductions, negotiated on a request-and-offer basis, rather than through the use of a formula approach based on a percentage reduction in average tariffs, as well as through "zero-for-zero" reductions for some product groups, including under the Information Technology Agreement. Moreover, the UR resulted in a new set of agreements on trade in goods – an extension of the General Agreement on Tariffs and Trade (GATT) which the WTO absorbed – as well as additional agreements on so-called "trade-related" activities. These include the Agreement on Trade-related Aspects of Intellectual Property Rights

(TRIPS), the General Agreement on Trade in Services (GATS) and the Agreement on Trade-related Investment Measures (TRIMs), as well as the Agreement on Subsidies and Countervailing Measures (SCM). It also established a unified and binding dispute settlement mechanism. The Agreements were adopted as a so-called "single undertaking" – countries had to accept the package of Agreements in its entirety. The resulting expansion of the scope of the multilateral trading regime means that key aspects of countries' regulatory regimes that affect how national economies operate have become subject to multilateral disciplines.

The multilateral trade regime has accorded exemptions to developing countries. In negotiations, they are allowed to grant less-than-full reciprocity under Article XXVIII bis of the GATT, adopted in 1958. Moreover, the so-called "enabling clause", adopted in 1979 and generally known as special and differential treatment (SDT), accords developing countries exemptions to the MFN rule, by allowing them to benefit from more favourable market access conditions. However, the UR brought a change in perspective on SDT. Prior to the Round, exemptions from the MFN rule and the principle of reciprocity were seen as a recognition by the international community that in order to provide some kind of parity between developed and developing countries, developed countries needed to give developing countries access to their markets without requiring them to open up their own markets on a reciprocal basis. These exemptions also gave developing countries some possibilities to pursue legally their own nationally determined development policies. Following the UR, SDT has basically come to mean that developing countries, and especially the least developed among them, are accorded longer transition periods for full implementation of all rules and commitments in the WTO.

Especially since the early 1990s, many developing countries have increasingly complemented multilateral trade negotiations in the WTO with regional or bilateral agreements, including with developed countries

and regions, in particular the United States and the EU. Regional or bilateral agreements with large developed countries offer substantial benefits to developing-country members as they usually provide greater market access than multilateral agreements, and often include a wider range of products than traditional trade preference schemes such as the Generalized System of Preferences (GSP). Moreover, their adoption is generally expected to lead to additional FDI. On the other hand, greater integration often involves additional steps towards regulatory disciplines, and thus further constrains the *de jure* ability of developing countries to adopt appropriate national regulatory and development policies, particularly with regard to FDI and intellectual property rights.

The constellation of these rules and commitments, as well as the associated exceptions and exemptions, constitute a complex legal structure that offers scope for different interpretations and practices. Against this background, this section concentrates on the often voiced concern that, since the rules and commitments of the international trading regime restrict the *de jure* ability of developing nations to adopt national development policy, they limit the possibilities for governments to deploy policies in support of further productive and technological development. More specifically, there is concern that these rules and commitments could deny the use of the very policy measures that were instrumental in the development of today's mature and late industrializers. To the extent that this is the case they thus reduce the flexibility of national governments to pursue their development objectives. Another concern is that these rules and commitments, which in *legal* terms are equally binding for all countries, in *economic* terms might impose more binding constraints on developing, compared to developed, countries because of the differences in their respective structural features and levels of industrial development. The discussion in this section concentrates on rules and commitments associated with the TRIMs, SCM and TRIPS Agreements and tariff regulations.

1. The Agreement on Trade-related Investment Measures (TRIMs)

One important area that the URAs have brought under multilateral jurisdiction involves a range of investment measures that have been used by many developing and some developed countries as part of broad strategies aimed at nurturing domestic industry and achieving technology transfer. The TRIMs Agreement is designed to clarify the relationship between a country's investment policy and the core rules of the multilateral trading regime by identifying measures considered incompatible with national treatment and forbidding the application of quantitative restrictions that link imports to export performance (e.g. trade or foreign exchange restrictions) or export restrictions based on domestic sales.

The Agreement does not define "trade-related investment measures", nor does it provide objective criteria for identifying them. The appendix to the Agreement gives guidance to governments to decide which of their measures violate the Agreement by providing an "illustrative list" of prohibited regulations. Countries are required to notify the WTO of such measures and eliminate them following the termination of transition periods.

The imposition of performance requirements on foreign investors is a key regulatory measure that has been affected by the TRIMs Agreement. Many governments, in developing and developed countries alike, have used performance requirements, which generally aim to increase the linkages between foreign investors and local manufacturers. One commonly employed performance requirement concerns local content regulations, which are intended to increase domestic value added, thereby generating additional national income and employment, as well as encouraging the transfer of technology. Other frequently used performance requirements relate to export performance or trade balancing, which require firms to match their use of imported inputs in their export products with an equal share of do-

mestically produced inputs in order to integrate the affiliates in the host countries into their global/regional production networks. Foreign exchange balancing rules, which require foreign investors to meet foreign exchange needs for imports through exports, rather than by converting local earnings into foreign exchange, have also often been used.

Chang (2002), for example, shows that today's developed countries extensively employed performance requirements to maximize domestic value added. A number of developed countries continued the use of performance requirements in the early post-Second World War period (WTO and UNCTAD, 2002). Local content requirements were also a widely used instrument that strengthened backward integration and increased domestic value added, in particular in the automobile industry.

Developed countries have increasingly replaced explicit performance requirements with trade policy measures that achieve essentially the same objectives as performance requirements but are consistent with WTO rules (Kumar, 2005: 185). One example is screwdriver regulations (i.e. regulations governing imports by trading partners of parts and components), which have been used by the EU (Safarian, 2003).

While developed countries extensively employed performance requirements in one form or another at earlier stages of their industrial development, developing countries have only recently started to use these policy tools to foster their industrialization and technological upgrading. This is closely related to the increasing importance of international production networks, where developing-country exports often include a high import content of technology-intensive parts and components, while domestic value added mostly consists of wages paid for simple assembly activities. In this context, domestic content requirements have been used to increase technology transfer to developing-country producers and to foster the use of domestically produced parts and components. Empirical evidence

on the effectiveness of such measures suggests that well-conceived performance requirements "that have clear objectives and are effectively enforced are not only able to meet their objectives, but may also bring significant favourable externalities to the host countries" (Kumar, 2005: 193). However, developed countries have brought a number of cases against developing countries before the WTO dispute settlement mechanism, especially in the automotive sector, invoking the rules and commitments of the TRIMs Agreement.

The TRIMs Agreement does not restrict the provision of incentives to attract FDI, even though the economic effect of such incentives may be similar to the provision of subsidies, and even though such incentives may affect international investment and trade flows as much as domestic content requirements. This is the case, in particular, for activities in international production networks where TNCs are known to practice trade-restricting policies with respect to their foreign affiliates (Kumar, 2005: 194).

Regional and bilateral investment agreements can be considerably more restrictive than TRIMs because they address all measures regulating FDI, and not only those that are considered "trade related". Moreover, many such agreements allow firms, rather than just governments, to bring cases to arbitration. Thus they go much further towards regulatory harmonization. By contrast, developing countries' bilateral and regional trade agreements with developed countries play a peculiar role in the area of TRIMs, as they weaken rather than reinforce multilateral commitments. This is because, through the rules of origin, local content requirements have also, by definition, been included in preferential trade agreements between developing countries and large importing countries/ regions, such as the United States and the EU. Given that developed-country parties to such trade agreements can tailor local content requirements to their needs, these measures have not been brought before the dispute

settlement mechanism of the WTO. Di Caprio and Amsden (2004: 23) therefore argue that preferential trade agreements present developing-country WTO "members with an escape hatch from limitations on that particular aspect of TRIMs."

It also needs to be recognized that FDI regulating measures that do not violate national treatment or impose quantitative restrictions continue to be consistent with WTO rules. For example, governments can impose technology transfer requirements which specify that a foreign company conduct a certain proportion or type of its research and development activities locally and transfer or license a specified technology to domestic firms. Or a licence could be granted for the establishment of an assembly plant only if the foreign investor simultaneously establishes a plant that produces required intermediate inputs. Governments can also require that domestic investors retain a proportion of a firm's equity or that a specific percentage of their technology personnel be recruited domestically (Shadlen, 2005a: 759). In reality, however, only countries with substantial leverage over foreign investors are able to use such measures.

2. The Agreement on Subsidies and Countervailing Measures (SCM)

The SCM represents another outcome of the UR that impinges directly on national rulemaking authority. It addresses multilateral disciplines for regulating the provision of subsidies, as well as the use of countervailing measures to offset injury to an industry in the importing country caused by imports that are subsidized in the country of origin. The SCM covers mainly the industrial sector; special rules apply to agriculture, and the General Agreement on Trade in Services (GATS) has no rules on subsidies (although the current WTO-negotiations are addressing this issue).

The SCM defines a subsidy as a financial contribution made by a government or any public body within the territory of a WTO member that

confers a benefit. Such benefits can result from direct payments, foregone revenues and rights, government guarantees and equity participation, the provision of goods and services below market value, or from differential application of certain rules to different sectors and activities, such as bank credits directed to specific sectors and activities with preferential conditions.

The Agreement represents a significant tightening of disciplines compared with the pre-UR regime, which did not include comprehensive rules and regulations on the use of subsidies, and allowed developing countries greater leeway to use subsidies for export promotion and import substitution. It broadens the scope of regulations relating to subsidies as it binds WTO members (except for the poorest among them, as discussed below) and extends to measures of subnational governments, State-owned enterprises and private entities that carry out functions that would normally be vested in the government.

As the Agreement only applies to specific subsidies, that is, those targeted at an enterprise, industry, or group of enterprises or industries, it affects the selective function of policy. Non-specific subsidies are not affected because they are presumed not to distort the allocation of domestic resources; these include subsidies for the provision of physical and social infrastructure, or subsidies resulting from low energy taxes that benefit all enterprises, as well as subsidies earmarked for specific enterprises according to their size or similar criteria. The Agreement prohibits subsidies that are conditional on export performance or on the use of domestically produced goods (but countries with a per capita income below \$1,000 are exempted from this prohibition) and makes specific subsidies "actionable", which means that they are subject to challenge through multilateral dispute settlement or countervailing action. While this distinction between specific and non-specific subsidies is straightforward in legal terms, in practice it is not always easy to differentiate (Anderson, 2002). This may leave

some room for developing countries to design subsidies that help import-competing or exporting firms without contravening WTO disciplines.

Article 8 of the original SCM provision defined certain specific subsidies as non-actionable. Subsidies extended to research fell in this category, as did subsidies in the pursuit of regional or environmental objectives. The permitted subsidies for R&D included the financing of venture capital funds and the provision to the private sector of technologies and innovations developed in government research laboratories. Also included in this category was public procurement policy in support of the proliferation of domestically defined standards for particular technologies. Moreover, in order to support a shift in economic activity to new products or the use of new technologies, activities could be subsidized as long as they were in the pre-competitive phase (i.e. before they resulted in the production of goods that were exported or subject to significant import competition).

It is, however, important to note that the provision that classified these subsidies as non-actionable came up for review in 2000, when no agreement over its extension could be reached. Thus these subsidies have now become actionable.

The Doha Declaration revisited this issue along with the proposal of some countries to allow certain subsidies for development. More specifically, it stated that the Ministerial Conference "takes note of the proposal to treat measures implemented by developing countries with a view to achieving legitimate development goals, such as regional growth, technology research and development funding, production diversification and development and implementation of environmentally sound methods of production as non-actionable subsidies, and agrees that this issue be addressed ... [as an outstanding implementation issue]. During the course of the negotiations, Members are urged to exercise due restraint with respect to challenging such measures" (WTO, 2001: 6). Meanwhile, however, the

issue of Article 8 subsidies seems to have been eclipsed by negotiations on other issues.

According to Aguayo Ayala and Gallagher (2005), this call for restraint has been respected, and developed and developing countries alike continue to use such subsidies under a tacit agreement not to challenge them under the dispute settlement mechanism. To the extent that this is the case, the SCM agreement is a good illustration of how WTO rules and commitments that are equally binding, legally, impose more binding constraints on developing countries economically.

Firstly, subsidies impose a cost on public budgets, which developed countries can afford more easily than developing countries. For example, Aguayo Ayala and Gallagher (2005: 19) estimate that in 2003 the EU-15 spent a total of about 50 billion euros on Article-8-type subsidies, mainly consisting of State aid and Structural Fund payments. This corresponds to about 25 per cent of developing countries' total annual gross domestic expenditure on R&D (UNESCO, 2005).

Secondly, Article-8-type subsidies are of concern primarily to developed countries in their quest to develop high-tech capabilities and technological innovations. They differ from subsidies conditional on export performance or on the use of domestically produced goods, which were frequently used by the late industrializers to foster industrialization and technological catch-up. Indeed, Article-8-type subsidies can be a key device for developed countries in their shift away from the provision of basic funding for scientific R&D towards a strategic approach that establishes and targets research priorities in frontier sectors such as information and communications technology, biotechnology and nanotechnology, alongside new challenges arising in more traditional sectors, such as health care, national defence and the environment. These are areas that many developed country policymakers have come to consider as crucial for economic growth and national prosperity.

Probably the most serious drawback of the SCM Agreement for development is that it prohibits making subsidies conditional on export performance. This has been an important instrument in East Asia's reciprocal control mechanisms, which have often been identified as key to the greater success of industrial policy in that region compared to Latin America (Evans, 1995). Thus the SCM Agreement withdraws a major monitoring standard that outward-oriented sectoral strategies in East Asia used successfully to ensure that support was given only to those enterprises that were able to compete in international markets. It is possible to establish other performance standards under a reciprocal control mechanism (such as the percentage of technology personnel employed, the percentage of sales contributed by new products and the allocation of retained earnings). But none of these alternatives enable a performance-based incentive policy that ensures international competitiveness and minimizes the risk of abuse and rent-seeking.

These effective asymmetries cast some doubt on arguments, such as made by Amsden (1999), that the bark of WTO law is worse than its bite. According to this argument the SCM Agreement formally leaves open the possibility of supporting industrial upgrading, as developing countries maintain the ability to provide "boundless" subsidies for science and technology and the development of human capital. The main problem, the argument goes, is that developing countries have failed to take advantage of the major types of nonactionable subsidies. It is probably true that subsidies is an area where, in principle, the main challenge for many developing countries is to use the existing flexibilities of the multilateral regulations through innovative policy measures. However, in practice, budgetary constraints may prevent some developing countries from using subsidies as part of their industrial policies.

3. The Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS)

The TRIPS agreement establishes global mandatory minimum standards for the granting and protection of intellectual property rights in several areas, particularly copyrights and patents. It also provides a dispute resolution and enforcement mechanism. Countries are free to decide how to implement these provisions in accordance with their own legal and institutional systems. Application of TRIPS in developing countries (except the LDCs) has been mandatory since 2000. According to Article 7, protection and enforcement of these rights must contribute to the promotion of technological innovation and the transfer and diffusion of technological knowledge in order to improve social and economic welfare. They must also ensure a balance between the rights and obligations of the parties.

Many believe TRIPS to be the most controversial of URAs because of its potential to restrict access of developing countries to technology, knowledge and medicines. The importance of the Agreement for industrial development lies in the fact that the procurement of proprietary knowledge has been among the key determinants of both early and late industrialization. The history of intellectual property rights protection shows that countries with low levels of technological capacity have generally used weak standards until they reached a level of development at which their industries could benefit from intellectual property rights protection. Chang (2002) points out that many of the now developed countries did not adopt intellectual property rights legislation or strict intellectual property rights standards when they were in the process of economic catch-up.

Prior to their implementation of the TRIPS agreement, developing countries' patent regimes typically included instruments to restrict the private rights of (largely foreign) patent holders (Amsden, 2001). Such instruments aimed to create more opportunities for local firms to access foreign innovations, thereby encouraging learning and technological progress via imitation. This enabled these countries to move beyond

a critical threshold level for domestic technological skills and promote national firms that were eventually able to engage in export activities. Knowledge procurement occurred in different ways, but reverse engineering from imported goods played an important role. This was facilitated by relatively weak enforcement of intellectual property protection, particularly of patents.

The TRIPS Agreement severely restricts reverse engineering and other forms of imitative innovation since it upholds the private rights of patent holders. As a result, it tends to limit access of developing countries to proprietary knowledge. More precisely, TRIPS has introduced a number of limitations on developing countries in designing their patent regimes. It broadens the scope of patents by requiring countries to extend patent protection to all fields of technology, while previously, countries could deny patents to certain types of goods or inventions in order to encourage reverse engineering; it extends the duration of patent protection uniformly to 20 years, while previously, countries could offer patents of short duration; it reduces the scope of exceptions, which are limited to very specific cases; and it limits governments' ability to regulate patent holders, while previously, countries could make the granting of patents that provided monopoly benefits conditional upon local production or licensing and on the transfer of technology to local users (Shadlen, 2005a).

The kinds of limitations introduced by TRIPS implies an asymmetry that favours the producers and holders of protected intellectual property – mainly in developed countries – at the expense of those trying to gain access to protected intellectual content, mainly in developing countries. Moreover, the Agreement requires developing countries to expand and enhance their intellectual property regimes, while providing very little to effectively facilitate and promote their access to technology. Indeed, the provisions in the Agreement are specific, binding and actionable with regard to the protection of intellectual property, and noncompliance with these provisions can be challenged

under the WTO's dispute settlement mechanism. By contrast, provisions regarding technology transfer and technical cooperation, which are of importance mainly for developing countries are of a "best endeavour" nature and vaguely worded, making them difficult to enforce. As a result, non-compliance with these provisions is difficult to prove and, on a practical level, subject to no penalty.

Another expression of this asymmetry of favouring incentives for the creation of patentable knowledge at the expense of the dissemination and use of such knowledge is the implied additional cost – in the form of royalties – to developing countries of acquiring useful technology. The potential economic costs of the TRIPS Agreement for developing countries to acquire patentable knowledge may be illustrated by the fact that in 2001 only five developed countries (France, Germany, Japan, the United Kingdom and the United States) accounted for 83.6 per cent of the total patent applications filed in the EU, Japan and the United States. And 82 per cent of scientific articles worldwide were published in the OECD area, nearly two thirds of which were from G-7 countries (OECD, 2005: 9 and 40). The surplus in the OECD-countries' technology balance increased from \$9.6 billion in 1993 to \$30.4 billion in 2003 (OECD, 2005: 203). Moreover, technology transfer is increasingly taking place within multinational firms, which reduces the importance of contractual and non-equity modes of technology transfer and makes it increasingly difficult for developing countries to obtain useful technology on a commercial basis as envisaged by TRIPS.

While acknowledging that TRIPS would cause a significant revenue transfer from developing to developed countries, it has sometimes been argued that its application would bring about higher returns to knowledge generation, which in turn will spur knowledge diffusion to developing countries, including through increased flows of FDI. However, there is no persuasive evidence for this (Correa, 2000). A further economic handicap is that patentable research is increasingly

carried out in private entities, with the result that most research activities are driven by their expected economic pay-off. Given the limited financial resources of most developing-country firms, there is a bias in the research agenda against those areas that are primarily of importance to developing countries.

Even though TRIPS has placed significant constraints on countries' autonomy in intellectual property matters, it has left room for variation across countries. For example, developing countries can impose stringent rules on patent disclosure (i.e. disclosure of the intervention that is sufficiently clear and comprehensive for a skilled person in the related activity to reproduce the inventive step), and subsequently grant narrow patents, i.e. patents that protect a very limited range of variations and thus offer no – or little – protection for variations that are not explicitly claimed. Or they can liberally grant improvement patents to local actors and protect their "minor" innovations, which often refer to incremental innovations that build on more fundamental discoveries and are thus crucial for tailoring imported technologies to local conditions. Such flexibilities allow local actors to "invent around" patents without governments risking litigation for infringement. Kumar (2003) argues that the patent regime in place in Japan after the Second World War until the 1980s provided for the granting of narrow patents, and that this regime served as a model for the late industrializers in Asia. Another example is flexible use of compulsory licences that allow a government to authorize itself or third parties to use a patent without the permission of the patent holder. Compulsory licences historically have been an important component of countries' patent regimes, and they are granted in a wide range of situations (UNCTAD and ICTSD, 2005). The TRIPS Agreement continues to leave countries with a significant degree of autonomy in this regard, as it grants countries "considerable leeway to impose non-voluntary licensing of patented interventions for any legitimate purpose and without undue constraints" (Reichman and Hasenzahl, 2003: 2).

However, many developing countries have engaged in regional and bilateral trade agreements with developed countries that often foreclose part of the autonomy left open to developing countries by TRIPS. For example, the United States – and to some extent the EU (Shadlen, 2005b) – uses regional arrangements to introduce legislation and practices that go beyond the levels of intellectual property protection under TRIPS (USTR, 2004).

One of the greater obligations imposed by many regional and bilateral trade agreements concerns the reduced ability of governments to use compulsory licensing as a policy instrument (see, for example, Maskus, 1997). In general, regional and bilateral trade agreements do not allow developing governments to issue compulsory licences except during declared states of national emergency, and even then they require increased levels of prior negotiations with the patent holder; moreover, where such licences are granted, the agreements substantially restrict the rights of the licensee (Shadlen, 2005a). International harmonization of substantive and enforcement rules on intellectual property rights has been further pursued at the World Intellectual Property Organization (WIPO), especially in the ongoing negotiations on a Substantive Patent Law Treaty (SPLT). Discussions on the work programme of the SPLT so far have not led to an agreement as to whether aspects such as prior art, grace period, novelty and inventive step should be included, as suggested by developed countries.

Developing countries fear that adoption of the developed countries' proposal would eventually result in the further harmonization of national patent laws in areas of patent law that have so far been left to the discretion of national legislation. This would risk further reducing developing countries' flexibilities to decide on the stringency of requirements for disclosure and the standards for granting patents, because it would eliminate countries' ability to determine what an invention is and how the patentability standards are set (see, for example, Correa, 2005).

4. Industrial tariffs

The use of industrial tariffs is in many respects not the best tool to promote diversification and technological upgrading. For a number of developing countries, domestic markets are too small to sustain the scale needed for production to be internationally competitive. Hence, tariffs may end up protecting infant industries that are unable to come anywhere near world market price and quality combinations. Industrial production needs to have an export component to reach an efficient scale, and protection alone may well discourage efforts to export. Also, as noted earlier, protection can easily be abused, in the sense of being unrelated to efforts to improve productivity: once granted, firms will lobby vigorously to maintain the protection. Therefore, industrial tariffs need to be used with great caution.

In spite of the numerous drawbacks of tariff use, developing-country policymakers may be hesitant to abandon industrial tariffs, mainly for three reasons. First, tariffs remain an important source of fiscal revenue for many developing countries. According to Kowalski (2005), should tariffs be completely abolished, many low-income countries would need to replace, on average, around 18 per cent (and in some cases over 50 per cent) of their tax revenues with sources other than import duty (see also Laird, Vanzetti and Fernandez de Cordoba, 2006: 7). While the importance of trade taxes in total revenue collection generally declines with economic development, in uppermiddle-income countries import duties accounted, on average, for about 12 per cent of total revenue in the late 1990s. Improved tax collection and broadening of the tax base can reduce the revenue shortfall resulting from declining taxes. However, many developing countries have already substantially lowered the share of import duties in their total revenues over the past two decades,³³ while low-income countries in particular have been unable to recover the revenues lost from trade liberalization (Baunsgaard and Keen, 2005). As a result, they are likely to experience difficulty in finding

supplementary sources of revenue that further tariff reductions would necessitate. Moreover, the decline in government revenue resulting from a reduction in import duties may lead to an increase in public deficits or a decline in public investment. But public investment has a crucial impact on economic development because it seeks to improve education, health and other social indicators. And public investment is often complementary to private investment, so that a decline in public investment below a critical level can seriously compromise an economy's development prospects (*TDR 2003*). On the other hand, tariff cuts could lead to a substantial increase in imports, with lower tariff rates levied on a higher volume of imports; in principle, this could maintain the value of import levies, but this is unlikely to occur because of balance-of-payments constraints.

Second, the provision of subsidies, rather than broad-based protection, could provide the incentives required for innovative investment, as discussed above. However, as already mentioned, the SCM Agreement has highly circumscribed the use of subsidies in areas where, formerly, both the mature and late industrializers of today actively used them during their economic catch-up. Moreover, as mentioned earlier, tight budgetary constraints limit developing countries' ability to use subsidies.

Third, and perhaps most importantly, the economic impact of changes in industrial tariffs is often assessed in terms of welfare gains or losses resulting from the reallocation of existing resources. From this perspective, a trade policy aimed at low and uniform tariffs across industrial sectors with full binding coverage will maximize a country's welfare benefits. But such an assessment pays little attention to the implications of tariff cuts and harmonization for capital accumulation, technological change and productivity growth that underlie industrialization and economic development.

It may be useful to recall that industrial tariffs were the main element of protection that today's developed

countries used during their industrial development. The United States maintained average industrial tariffs at around 40 per cent, and never below 25 per cent except for short periods, throughout most of the period between 1820 and 1945. Regarding the United Kingdom, Bairoch (1993: 46) notes that prior to its substantial move towards free trade with the repeal of the Corn Laws in 1846, Britain had achieved its technological lead "behind high and long-lasting tariff barriers". He also notes that the country had actively used infant industry protection, export subsidies, import tariff rebates on inputs used in manufacturing for export, and export quality control.

Comparing tariff levels at similar levels of per capita income (measured at purchasing power parity) shows that average tariffs in today's developed countries were much higher when they had similar per capita income levels as today's developing countries (see also Akyüz, 2005). In this sense, tariff policy in today's developing countries appears to be relatively liberal. Towards the end of the nineteenth century, when the United States had a per capita income similar to today's weighted average level in developing countries (i.e. about \$3,700 in 1990 dollars measured in purchasing power parity), the level of its weighted average applied tariffs on manufactured goods was close to 50 per cent, compared to 6.5 per cent in developing countries today. In 1950, when the United States had evolved as the world's technological leader with a per capita income more than double the average level in today's developing countries, the level of its weighted applied tariffs on manufactured products still exceeded the current level in today's developing countries. When the United States had the same level of per capita income as the Republic of Korea today, its weighted applied tariffs were higher (7.0 per cent compared to 4.5 per cent), and when it had the same per capita income level as Brazil, China or India today, its tariffs were several times higher. This is also true, to varying degrees, for the European countries (i.e. Germany, France and the United Kingdom).

These comparisons of the relative levels of tariff protection between the developed countries during their catch-up phases and today's developing countries do not tell the whole story. Developed countries also benefited from the additional protection of natural trade barriers in the form of transportation and information costs, which were higher in the past than they are today. More importantly, the productivity gap between developed and catching up countries, which is the main justification for tariff protection in catch-up periods, is much greater now than it was in the past. Thus in order to obtain the same degree of actual protection, today's developing countries would need to impose relatively higher tariffs than those that were used by the now developed countries during their catch-up periods (Chang, 2002: 67). Chang (2002) shows that the great importance of tariffs in promoting economic development until the 1920s was associated with the underdevelopment of other instruments of public policy. Governments' limited abilities to raise tax revenues circumscribed their use of subsidies.

Moreover, non-tariff measures such as quotas, voluntary export restraints and anti-dumping were developed only after the Second World War, before evolving into standard instruments in support of industrial development. Therefore, in a sense, the limited range of trade policy instruments available to developed countries until the 1920s resembles the situation faced by developing countries today, given that WTO rules and commitments curtail the use for economic catch-up of instruments such as export-related subsidies, performance requirements for foreign investors, and reverse engineering and imitating of foreign technology.

As proposed by Akyüz (2005), in such circumstances, it would be important for developing countries to be able to modulate applied industrial tariffs in order to pursue a pattern of public support policies. That is, the variation of applied tariffs levied on particular product categories, in accordance with their path of technological upgrading, could be a key

instrument of sectoral policy. To be sure, this kind of tariff policy does not imply either the imposition of high applied tariffs for all sectors at any one time or the imposition of high average applied tariffs. On the contrary, it is likely to result in lower average applied tariffs than would be the case if tariff policy were looked at from a tariff line by tariff line perspective.

This kind of flexible tariff policy would be best accommodated by a strategy of maintaining bound tariffs at a relatively higher level (or maintaining a large part of industrial tariffs unbound) and modulating applied tariffs on particular industrial sectors around a relatively lower average level. This would be possible if industrial tariff reduction obligations from international agreements extended only to average tariffs, and not to individual tariff lines,³⁵ which has indeed been the case in all multilateral trade agreements concluded so far.

Apart from supporting diversification and technological upgrading, this tariff policy pattern provides several additional advantages (see also Akyüz, 2005: 26).

First, it would balance multilateral disciplines with national policy flexibility, because it would encourage countries to choose applied levels of their industrial tariff lines within the overall limit of an average bound tariff, rather than seeking revenue maximization or accommodation of wide-ranging demands from lobby groups. Second, it would encourage policymakers to view tariff protection for specific industries at the lower rung of the technology ladder as a temporary measure, to be phased out and replaced by tariff protection for industries at higher rungs of the ladder until they are able to compete in world markets. Third, as a consequence, it would encourage policymakers to take a longer term view of their economy's technological development and multilateral commitments.

A number of developing countries have maintained a tariff regime that allows them to modulate applied tariffs on manufactured goods. For

developing countries as a group and for all individual developing countries, except China, bound tariffs on manufactures significantly exceed applied tariffs,³⁶ thus leaving room to adjust tariffs in support of domestic producers. Moreover, many developing countries have less than full binding coverage or deploy significantly different levels of both bound and effectively applied tariffs across manufactured goods, as shown by relatively high values of the coefficient of variation that reflects intersectoral dispersion.

The current multilateral negotiations on nonagricultural market access (NAMA) are set to reduce this flexibility in tariff setting and binding that developing countries have maintained. The framework adopted for modalities of industrial tariff reductions, as contained in Annex B of the so-called July Package (WTO, 2004) stipulates a reduction in tariffs according to a non-linear Swiss formula, and an increase in binding coverage. While at the time of writing (June 2006) the definition of full modalities remained to be negotiated, the overall objective of the adopted approach is to bind and reduce all industrial tariffs with a view to harmonizing them, both across countries and across individual tariff lines.

In sum, a developing country's tariff policy needs to be part of a long-term industrialization strategy. Selective trade liberalization should be in line with a country's ability to achieve technological upgrading. In addition, temporary protection should be combined with export promotion associated with quantitative targets that are easy to monitor and allow governments to withdraw support from firms that do not achieve upgrading targets.

Given the numerous drawbacks and risks associated with their use, tariffs need to be implemented with considerable caution. But since the URAs reduced the degrees of freedom for developing countries to use other policy instruments designed to support diversification and technological upgrading, the relative importance of industrial tariffs has increased.

ON THE WASHINGTON CONSENSUS, GLOBALIZATION & NEOLIBERALISM

“From a perspective of the South, we can not change the world we live in but we can change how we live in that given world. By doing so, the South can accumulate power to change the world itself.” That is the considered opinion of Aldo Ferrer, former Minister of Economy of Argentina, and a former Member of the South Commission. He maintains that the growing influence of the emerging industrial countries is already changing the balance of power in the world economic arena. The emeritus Professor of the University of Buenos Aires is convinced that Nations are built from within outwards and not the opposite. He made the following observations recently.

The 15 March 2006 edition of the South Bulletin contains two contributions by Professors Dani Rodrik and Jan Aart Scholte on globalization, neoliberalism and the Washington Consensus. I would like to add some of my own thoughts on the same subjects.

In a paragraph of his paper Scholte maintains that policy decisions matter and that there exists more room for manoeuvre within globalization than is often acknowledged. This being so, the question then arises why some countries, like the emerging industrial ones in Asia, took advantage of their potential room for manoeuvre to launch their national development, while others, mostly in Latin America, did not. On this region experience, I refer to my paper “Development and underdevelopment in a globalized world: Latin America dilemmas” (in Economic and social development into the XXI Century. Louis Emmerij, editor. IDB. Washington D.C. 1997) and previous contributions of mine to the South Bulletin.

In fact, globalization provides, simultaneously, risks and opportunities. Countries are then confronted with the dilemma of development in the global world. The quality of their answers to solve the dilemma in critical fields such as trade, finance, investment, knowledge and information, becomes decisive for economic development. The economic history of each country can largely be narrated along the path followed by its answers to the risks and opportunities of globalization.

Those answers are influenced by the external context or scenario

but are mostly domestically determined within each national space. Comparison of experiences of successful countries, namely, those that were behind the leading countries in different historical periods and succeeded in coming to the front, helps to illustrate the point. Whether it is the US, Germany, Japan, Sweden or Denmark in the XIXth century or the emerging industrial countries in Asia, including India and China, more recently, it is interesting to observe that, in all cases, prevailed certain specific domestic conditions, notwithstanding the substantial differences on the size and resources of those countries and the transformation of globalization forces operating in different historical periods.

Briefly, those domestic conditions were:

- A substantial degree of social cohesion and absence of extreme disparities in the distribution of wealth and income,
- Leaderships or elites with strategies of accumulation of power and wealth within the domestic domain, preserving the control of critical resources essential for capital accumulation and employment,
- Institutional stability under different forms of political organization and the capacity of containing and solving social conflicts in reasonable peaceful terms,
- Predominance of critical ideas on economic and social matters to sustain policies consistent with national development objectives, and

- On those grounds, long term policies capable of maintaining macroeconomic balances and promoting savings, investment, technical change and competitive abilities *vis a vis* the rest of the world.

These domestic conditions or *national density* (see my *La densidad nacional: el caso argentino*. Capital Intellectual. Buenos Aires, 2004), prevailing in successful countries, and totally or partially absent on those which are not, are closely interrelated.

For example, countries with extreme inequalities can be expected to have leaders and elites with closer connections with the central countries than with their own peoples and accumulate power mostly as agents of foreign interests. When this situation prevails it is not necessary for neoliberal circles of the North to preach the gospel in the South. Leaders and elites in the South itself are capable enough of doing so by their own initiative. .

After two centuries of independence from Spain and Portugal, Latin American countries have not been able to overcome underdevelopment and dependence. I suggest that this can not be explained by unsolvable obstacles imposed by the world economic order but, mostly, by the weakness of the *national density* of those countries. Remember, for example, that Latin America has the worst distribution of income the world at large. Average income of the richest 10% of the region population is more than 30 times that of the poorest 10%.

Countries of the South do not have power enough to change the rules of the game of globalization, administered by the central countries through multilateral agencies and otherwise. Nor to change the forces of integration of human societies across frontiers imposed by the advance of science and technology. But the impact of exogenous factors can be transformed from within countries providing good answers to the risks and challenges of globalization. In other words, from a perspective of the South, we can not change the world we live in but we can change how we live in that given world. By doing so, the South can accumulate power to change the world itself. In fact, the growing influence of the emerging industrial countries is already changing the balance of power in the world economic arena. At the same time, the gap between *national densities* of countries of the South and, thus, of the quality of their answers to globalizations, helps to explain the increasing discrepancies in growth and welfare within the South itself.

Rodrik and Scholte articles complement each other. Scholte explains the deep roots of neoliberalism and Rodrik how, despite the failures of the original Washington Consensus recipe, the gospel is *augmented* to reinforce or adapt the first Decalogue with new items such as corporate

governance and flexible labour markets. It is interesting to observe that one of the points of Professor Williamson's (1990) contribution included competitive exchange rates. While multilateral agencies insisted on the basic - privatize, deregulate, liberalize - formula, they overlooked the overvaluation of currencies, as it happened, for example, in the Argentine case. Overvaluation demolished the competitive capacity of domestic manufacturing, increased fiscal and foreign payments imbalances and, finally, exploded in the foreign debt crisis. But overvaluation was crucial to increase the demand of foreign financing, promote capital flights and the transfer of profits and interests. It was in fact functional to speculative capital movements.

It is also worth mentioning that while some of the most successful emerging industrial countries, such as Korea, fell into the financial trap in 1997/98, they were able to recover in a brief period of time. On the contrary, in Latin American experience, foreign debt became a chronic malaise. The difference lies in the fact Korea and others have provided very good answers to globalization in the field of production technology, investment and trade and, thus, were able to rapidly overcome their mistakes in the financial arena. This was not the case in Latin America. The

overall vulnerability of her economic systems prolonged the duration of financial crisis.

Neoliberalism presupposes that development is externally determined by forces operating in the global market while historical experience is conclusive to the contrary. *National density*, that is, *nation building*, is essential for growth and transformation and it can only be based, in the first place, by forces operating in the domestic arena of each country. Nations are built from within outwards and not the opposite.

Neoliberalism is also founded on the assumption that most transactions take place in the global market. Yet, exports represent not more than 20% of world GNP while product and investments of affiliates of transnational corporations represent less than 15% of GNP and fixed investment in the world economy. At the same time only 3% of the world population has migrated and live outside the countries of origin. Thus, domestic markets and savings are crucial for sales, investment and employment.

In the field of information and knowledge most of us live in fact in a global village but, in the real world of production, employment and growth, we still live in an international framework of nations and states.

RECLAIMING DEVELOPMENT: INDEPENDENT THOUGHT & CARIBBEAN COMMUNITY

That is the title of Professor Kari Levitt's recent book, a collection of 15 papers that span a period of 30 years. Emerita Professor of Economics at McGill University and the former George Beckford Professor of Political Economy at the University of the West Indies, Kari Levitt argues that it is time to reclaim the right to development and the right of nations to engage in the international economy on their own terms. The following is a tribute to her writings by Norman Girvan, member of the South Centre Board. Mr. Girvan expressed these thoughts at the launch of Levitt's book on 5 July, 2006.

"Thirty years ago, economics in the Caribbean was much more interesting than it is today. It was concerned with matters like growth and transformation, distribution and equity, local control and participation, industrialization and agricultural development. Mathematical formalisa-

tion and econometric testing were not 'dissed', but it was accepted that they needed to be grounded in the institutional and structural realities of the Caribbean.

Today much of that attention to context has disappeared; and

economics itself has largely been replaced by finance as the career of choice by many of our best and brightest young people. To quote Professor Levitt:

The disjuncture between the real economy and the burgeon-

ing of financial institutions in the region is replicated by an intellectual disjuncture between the economy as modeled in the classroom, and the economy as daily experienced by the population. Narrowly defined models of economic behaviour based solely on rational self-interest, devoid of institutional context, whether presented conventionally or in mathematical form, cannot address the real and urgent economic problems of the region. Additionally, the methodological individualism which underlies these models contributes to a socialisation process which emphasizes private agendas of career advancement over the larger social concerns which motivated past generations of Caribbean economists. Years of official tutelage of public policy by international multilateral agencies have eroded the critical faculties of the profession. Mimicry and dependence on 'ready-made' doctrines based on simplistic assumptions of 'homo-economicus' have displaced an earlier institutionalist tradition of Caribbean economics which sought to understand the persistence of economic underdevelopment in terms of societal structures inherited from the plantation legacy. Notwithstanding the shortcomings of that approach, it had the merit of pointing toward independence of thought as the critical step toward breaking patterns of dependence, and unleashing the creative capacities of all the people of Caribbean societies. (Pg. 358)

This is one my favourite passages. Not only does it sum up our present predicament with great clarity and eloquence; it ends by pointing to her central contention; which is that the reclaiming of development equally involves the reclaiming of independent thought. The title and subtitle of the book are thus organically related; and although they may appear, at first blush, to be somewhat immodest, we are forced to conclude, on further reflection, that no less a task is required.

Only last week, for instance, Prime Minister Arthur of Barbados was speaking about the tremendous intellectual ferment that existed in this region in the 1970s, and was lamenting its absence today, and talking about the need for a rebirth, a renaissance, of the tradition of independent and critical thought.

Indeed, one of the pernicious consequences of the changed intellectual climate is the virtual disappearance of development issues from the agenda of public discourse. Our leading newspapers across the region, feature, on a weekly basis, special supplements on finance and business; but hardly anything at all on issues of development. The subliminal message is that what is good for the financial sector is good for the economy as a whole.

But surely money is not the same thing as wealth; and managing money is not the same as creating wealth, it merely redistributes wealth that has already been created in the real economy. To believe otherwise is to fall prey to an illusion, a fiction, analogous to the fictitious commodities of land, labour and capital that Karl Polanyi, Kari's illustrious father, wrote about.

The other side of the current fascination with 'financialisation' is a tendency to overlook the fundamental importance of the real economy, without which the financial sector would, quite simply, implode. In the case of agriculture, for instance, that sector has been neglected, relatively speaking, by governments, by young entrepreneurs and by the financial sector; to the point where Caricom as a whole spent nearly 1,500 million US dollars on imported food in 2004; compared to just over \$1,000 million in 1995. This is a 50% increase in less than 10 years! In the meantime a large part of the rural population in the region languishes in persistent poverty; and the agricultural sector as a whole, across the entire region, has been at a virtual standstill for decades.

Trade agreements, and their implications for development, is another topic that urgently needs to be placed on the public agenda.

There seems to be very little public information and public awareness of what the WTO negotiations and the EPA negotiations might mean for the policy space we have to pursue development options of our own; in areas such as the fostering of agriculture and industry, the provision of social services at affordable cost, the promotion of public health, the nurturing of local entrepreneurship and of research and development.

A couple of months ago the Caricom Trade Ministers took the unprecedented step of issuing a public statement in which they lamented the failure of the European Union to make good on its commitments to make the Economic Partnership Agreement now under negotiation a true instrument for the development of the Caribbean countries; a statement which has, inexplicably, been virtually overlooked by the media and in public comment.

In the EPA negotiations, the Europeans are demanding all kinds of things that are quite unrealistic, and whose only rationale seems to be to open up the markets of the Dominican Republic and Caricom to European exporters and investors. They are demanding legally binding commitments on market access from Caricom countries but are unwilling to give legally binding commitments on development assistance in return.

The other big issue that is coming up is the Free Trade Agreement with the United States. We are coming under pressure to negotiate a Free Trade Agreement with the United States because we are presently accessing the US market under CBI (Caribbean Basin Initiative) provisions, and those will be phased out soon, probably by the end of 2008.

But a Free Trade Agreement with the United States is likely to be modeled along the lines of the CAFTA-DR (The Central America-Dominican Republic-United States Free Trade Agreement), and this means a reciprocal arrangement under which our markets could be opened up to US farm products that are heavily subsidized, to manufactured goods, to service providers; there will be

heightened rules for the treatment of investment, for the protection of Intellectual Property Rights, rules to open up government procurement to foreign suppliers, and so on.

A Free Trade Agreement with the United States is not a simple matter to contemplate, it is far more than about trade. It provides for a whole set of rules that bind domestic policies. It is not something we should be entering into without a great deal of study of its implications and consultation with people, with producers who are going to be affected.

In other words, we need to see trade policy as the servant of development objectives; rather than simply assuming that trade liberalization will necessarily lead to improved allocative efficiency and hence to higher incomes and growth. One has a sense that these matters should be receiving more attention from the business community, the trade unions, consumer groups, NGOs and not least of all the academic community.

One of the most valuable sections of this book is the Michael Manley - Kari Levitt letters. It is not often that a former Prime Minister in the Caribbean, engages with an academic in a public exchange in which he explains, defends and tries to justify decisions that he took while in office; controversial decisions. In fact if I am not mistaken this is the first time in our history that this has happened.

The exchange was over two issues. Who was responsible for the defeat of Mr. Manley's experiment in Democratic Socialism in the 70s? Was it the IMF, as Mr. Manley and his supporters, including myself, argued at the time; or was it the squandered opportunities and political vacillation and economic mismanagement of the Manley Administration itself? Kari makes a very persuasive case that it was the latter; after all, the IMF had a job to do, and it did it. Needless to say Mr. Manley did not agree!

The other issue that was debated in the exchange was the decision by Mr. Manley's Government, after his re-election in 1989, to engage in a

wholesale financial and exchange rate liberalization. This sent the Jamaica dollar through the floor and eventually precipitated a financial crisis, with the government engaging in a massive bail-out of the financial sector, and incurring a huge debt burden. The servicing of the debt absorbs over 60% of the government budget and is the major contributor to high interest rates that continue to choke the Jamaican economy.

Kari told Mr. Manley, in effect, that decision to liberalize the Jamaican currency was premature, irresponsible and even reckless. In the course of the exchange with him she wrote:

When you announced your 180 degree turn around ('During the 1980s, I turned my ideas on their head,' Daily Gleaner, May 17, 1992); when you declared your 'whole hog' embrace of the market, and admiration of the United States (Daily Gleaner May 25, 1992), and made the now famous statement that 'You just can't improve on Adam Smith', you lent the prestige of your authority to a socioeconomic model which has created a new underclass of poverty and dispossession in the world's richest countries. The market model, unfettered, deregulated and unleashed on a society of severe inequality, as in Jamaica, has further impoverished the poor, while enriching a narrow stratum of the commercial and professional elite. (Pg. 272)

Only Kari, perhaps, would have had the gumption to say this to a former Prime Minister, and manage to get away with it! But what is also fascinating about this exchange, is the insight it provides into the thinking that went into Mr. Manley's decision, for which he took full responsibility; and his reasoned defence of his conversion to market fundamentalism, which he embraced with all the conviction of a born-again believer. This is a must-read for everyone, it is really quite unique in the annals of our history.

There are many, many other gems in this book; waiting to be discovered

by the discerning reader. There is just one other thing I want to say. I saw something in the paper yesterday about a 'Canadian economist' launching a book. Now I am trying to figure out who this Canadian economist is. I saw a picture of Kari beneath the headline, a rather nice one in fact; but to call her simply a 'Canadian economist' betrays, I am sorry to say, a complete lack of knowledge about what Kari is about. Kari has spent the better part of the past 40 years working on the problems of Caribbean economies, many of these years resident in Trinidad and Tobago and in Jamaica. Her work has influenced several generations of Caribbean economists and of graduate students; I count myself privileged to have learnt volumes from her.

Her collaboration with Lloyd Best on the plantation economy models, her work on the national accounts of Trinidad and Tobago, her role in bringing several generations of graduate students to McGill, including at least one former Governor of this Central Bank and the present Secretary General of Caricom; her stint at the Institute of International Relations in the 1970s and at the Consortium Graduate School of Social Sciences in the 1980s and the George Beckford Chair in Caribbean Political Economy in the 1990s; her monumental effort in compiling and editing the George Beckford papers; her collaboration with the late beloved Willy Demas; - all these attest to the enormous debt that we owe to her, one that can never truly be repaid.

And on top of all that, Kari was spotted was playing mas' on the streets of Port of Spain last Carnival Tuesday, in full costume, at the ripe age of four score plus!

Kari Polanyi Levitt is every bit as West Indian an economist as any of us - I believe it was Lloyd Best who called her the 'West Indian from East Europe' - and I am really glad that this opportunity has presented itself for us to "big up" Kari, as we say, tonight and tomorrow at the special seminar held in her honour; and I commend the Central Bank for rising so splendidly to the occasion."

DON'T RUN AFTER FOREIGN EXPERTS - PROF ASIT BISWAS

"Developing countries must not fall prey to the current syndrome of what I call solution-in-search-of-a-problem approach which is now very popular with the donors and international institutions." That is the opinion of Prof. Asit Biswas, who runs the Third World Centre for Water Management in Mexico, and who was awarded the 2006 Stockholm Water Prize for his outstanding and multifaceted contributions to global water resource issues. Earlier, Prof Biswas received the Aragon Environment Prize from Spain's President and Environment Minister on the World Environment Day this year. Following are extracts of recent interviews done respectively by 'Stockholm Water Front' and the 'Asian Water.'

Professor Biswas, what does receiving Stockholm Water Prize mean to you?

This year I received the prestigious Aragon Environment Prize of Spain, and "Man of the Year" Award from Prime Minister Harper of Canada for my work in the area of international development. However, in the field of water, the Stockholm Water Prize is unique and the most respected in the world. The Stockholm Water Prize and the other two prizes I received are really a confirmation by the global community of the quality of work at our Third World Centre for Water Management and its overall impacts on the world. Naturally, we are delighted with such global recognitions.

How would you describe yourself?

I see myself primarily as a scientist who wants to ensure that the best water policies are formulated and implemented in specific countries, based on the countries' aspirations and conditions to improve the quality of life of their people. I do not care much for political correctness, international bandwagons, dogmatic views and hidden agendas. I have no problem to call a spade a spade. I firmly believe that science does not advance by consensus: if it did, we still would be living in the Dark Ages! Thus, candid discussions of complex problems are absolutely essential.

For nearly 40 years, you have challenged the Western solutions in solving water problems in the developing world. Why are such solutions fundamentally not appropriate?

The world is highly heterogeneous. Countries are at different stages of development. Climatic, economic, social, cultural, legal and environmental conditions are different. Technical and management capacities of institutions are different. Levels of corruption are different. All these factors change with time. By neglecting these considerations, the solutions proposed by Western experts and bilateral and multilateral aid institutions have often created more problems than they have solved. We need to develop specific solutions for specific problems for specific locations. In the field of water, one size does not fit all. There is no universal paradigm. If we are to ensure a water-secure world for the future, we have to consider existence of plurality of paradigms for both the North and the South. What works in Sweden may not work in Singapore or Syria, and vice versa. In addition, the South can teach many countries in the North better management practices, a fact that is being ignored at present. For example, Singapore can teach the entire Western World as to how to manage their urban water and wastewater management systems more efficiently and equitably.

What do you regard as your greatest single achievement?

As an advisor to 18 governments at the Ministerial level and six heads of UN agencies, I have often managed to influence policies, often at one-to-one interactions, which have had substantial impacts on the quality of life of tens of million of people. This is by far my best achievement.

There is a lot of talk of "water wars" in the mainstream media. But you believe water is a catalyst for peace. Why?

Talks of water wars are pure rubbish, a fact that I have consistently repeated throughout my career. If there will be a war between two countries, the tenth reason could be water but not the first nine. Water projects, when planned and managed properly, act as engines for regional development. Their primary, secondary and tertiary benefits could revolutionise the quality of life of the poor people. Yet the water profession has consistently neglected to assess scientifically how water developments can act as an engine for growth of an entire region. At our Centre, we have analysed the benefits and costs of three large water projects: Bhakra Nangal in India, Aswan Dam in Egypt and Ataturk Dam in Turkey. The benefits they have brought to the regions are simply fantastic. By bringing prosperity to the regions, they have advanced the cause of peace and security. Thus, water is a catalyst for development.

Who, or what, has inspired you the most during your life?

This is a simple question to answer: two women in my life. My mother, who taught me to fight, even when I am in the minority of one, as long as the cause is right, and told me that there is nothing wrong to live in an ivory tower, as long as it is not my only place of residence. The second is my wife Cecilia. I have not done anything during the last ten years where she has not had major intellectual and technical inputs.

What do you view as the greatest water/development challenge of the 21st Century?

The water profession, like any other profession, is very conservative. It has been saying for the last 40 years that business as usual is not an option, but continues to behave as if there is no option. During the next 20 years, the world of water will change more, compared to the past 2000 years. We can no longer anticipate, let alone solve, tomorrow's water problems with yesterday's knowledge and the day before yesterday's experience. Forces like globalisation, free trade, information and communication revolution, accelerated quest for energy security, technological developments, and ruralisation, as well as new dynamics in the areas like population and urbanisation that are unprecedented in human history, are changing the boundary conditions of water management. Yet, these issues are being consistently ignored by the water profession.

Accordingly, our Centre, the new International Centre for Water in Zaragoza of which Cecilia is the first Director, and Sasakawa Peace Foundation, are bringing together 24 of the world's leading thinkers and intellectuals to a retreat in Spain to consider objectively, undogmatically and synergistically the future of water in a rapidly changing world. This will be the first such effort to look at the global water future for 2020 and beyond. A secure water future is our biggest challenge. This is doable but not if we continue as we are doing at present.

You are not only a prolific author, you are also an avid reader. What are you reading now?

Everyday, at around 6.00 a.m., no matter where in the world I am, I spend 1 1/2 hours reading the Financial Times, New York Times, Washington Post, The Times, The Telegraph and the The Independent. This is my morning fix, before I venture out to work! In terms of books, I am now reading William Easterly's "The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics". This is

a brilliant book from a former Senior Advisor to the World Bank. In this refreshing book, he candidly analyses "how unfortunately misguided were the past panaceas – including some still in force today – for economic growth in the tropics." Reading this book reminds me how many of our past and present panaceas have not worked in the water sector, but still numerous people and institutions are recommending them. This book is a "must read" for any one interested in development.

(Extracts from the Asian Water)

Are there similarities in water problems faced in different countries?

Viewed at a macro-policy level, the main water problem facing most countries of the world is somewhat similar. This is because nearly all the countries of the world are mismanaging their water resources, some more than others. Based on the research done at our Third World Centre for Water Management, we have concluded that the world is unlikely to face a water crisis because of actual physical scarcities of water. The crisis is more because of continuing and extensive mismanagement of water all over the world.

The developed world is now primarily concerned with water quality, and the developing countries are still preoccupied with water quantity. For the developing world, we are running out of time in terms of instituting proper water quality management. Studies at our Centre indicate that less than 10% of wastewater produced in Latin America is treated adequately and disposed of in an environmentally-safe manner. The situation is probably no different in the Asian developing countries, and perhaps considerably worse in Africa.

The types of water problems we face in various countries of the world are very different because physical, climatic, economic, social, political, institutional and environmental conditions are not similar.

Do you think the educational institutes today are well-equipped to train a new generation of managers for the water sector?

Sadly, educational institutions all over the world are somewhat conservative in nature. Changes come slowly and incrementally. Water management will change more during the next 20 years compared to the past 2000 years. We simply cannot anticipate tomorrow's problems (let alone find efficient solutions) with yesterday's knowledge and day before yesterday's experience. The new forces that are being unleashed by globalisation, free trade, information and communication revolution, accelerated quest for energy security, technological developments, etc., are changing water management practices and processes by myriads of pathways, some known but others mostly unknown. Educational establishments all over the world are progressing blithely with the implicit assumption that the future is going to be an extension of the past, with only modest and incremental changes.

They are in for a rude awakening. Future problems are going to be increasingly more complex and more interrelated with the other development sectors. The existing institutes will simply be unable to cope with the future water problems of the world.

You have often written about the problems of using foreign consultants and imported technology in developing countries. Can you give some examples? Do you see this trend continuing?

The history of water development is littered with examples of foreign consultants who come to developing countries with limited knowledge of their climatic conditions, social and cultural habits, institutional and management capacities, and environmental situations. They come when the weather is most pleasant. For example, all the 5-star hotels in Islamabad or Dhaka are full each year with foreign consultants between October and February, when the climate is most agreeable.

One will be hard-pressed to see a foreign mission during the monsoon season, or the hot periods of May and June, in the Indian sub-continent. They stay in the country for a few weeks (often their first visit to the country) in fancy hotels and move around in air-conditioned cars with several local officers to look after their every whim. After this artificial existence, they propose solutions for the Western conditions with which they are familiar with and which may work in North America or Western Europe. These are mostly wrong solutions, because the prevailing conditions in the United States or the European countries are very different from Asia. Not surprisingly, many of these solutions proposed by Western consultants, with limited knowledge of the local conditions do not work in developing countries.

Let me give you two recent examples. A well-known foreign consultant advised Bangladesh that it will save lot of water if all the bath-tubs in the houses were converted into showers. The poor man did not know that most households in Bangladesh use buckets of water to clean themselves! Thus, the solution obtained at a great cost had no relevance for Bangladesh. Sadly, no one told him that his proposed solution was useless. Another example is the establishment of a pollution control research institute in India, for which the UNDP provided a US\$7 million grant. UNIDO, which was the executing agency for this project, hired a Chief Technical Advisor (CTA) from the US to establish this research institute. Technically, he was a very competent person, but he had never worked in a developing country. After his death, I was brought to the scene. By this time, more than 80% of the UNDP funds had been used or committed on unnecessary items.

For example, the previous CTA bought a wet scrubber from Germany at a cost of nearly US\$500,000 to take sulphur out of coal, and another \$300,000 was spent to buy an automatic water quality monitoring van from The Netherlands. The only problem with the scrubber was that the Indian coal, unlike the American coal, contains very little sulphur, but its ash content is extremely high. If

the wet scrubber is to be used, one would have to add sulphur in the coal first before it can be taken out!

With regard to the monitoring van, it was designed to be used on the smooth roads of Holland and not on the uneven pot-holed roads of India. The first time the van was driven for about 25km to carry out some water quality monitoring, the calibrations of all its sophisticated instruments went haywire. No one in India could recalibrate them, and a Dutch expert had to be flown in at a great expense to recalibrate them. The next time the van was sent for another monitoring mission, the same problem occurred. In addition, all the instruments in the van were designed for a maximum temperature of 35°C, which is fine for the Dutch conditions. In the very first summer, when the average temperature in this Indian city went up to 44°C, all the resistors blew up like popcorns!

Thus, these two instruments, and many others that were bought, though state of-the-art, were either totally useless, or of very limited use, for the Indian conditions. With a US\$7 million external support, it should have been possible to establish a world class research institute in India. However, all this money, plus the local counterpart funding, were basically wasted to establish this research institute. The project did not help the country in any visible way. There are two further points that should be made. First, when I made my report to UNIDO, I called these instruments "white elephants," and pointed out that the UNDP funds had been wasted, as a result of which the institute had no future. While UNIDO did not dispute my findings, I was under tremendous pressure to tone down my criticism substantially. This I refused to do. Interestingly, thereafter I have never been invited to advise UNIDO again! This is often a standard problem with foreign-funded projects. International organizations mostly do not want serious and objective evaluations by competent and independent experts. They prefer pseudo-evaluations, where they use their regular so-called independent consultants, who depend on these institutions for much of their incomes.

Not surprisingly, these so-called "independent" consultants play up the benefits and play down the shortcomings of a project, as a result of which, at least on paper, the project becomes an "outstanding" success.

The second point is that senior officials from developing countries often have a complex. They consider mediocre, or even third grade foreigners, as "experts," but mostly ignore professionals from their own countries whose technical and local knowledge is significantly better than these so-called "experts." Until and unless this mindset of kow-towing to any foreigner irrespective of his/her expertise changes, the progress will continue to be limited. True foreign experts, with good knowledge of the local conditions, should be welcomed, but all the others should be politely shown the door!

Are you helping to set up more institutes on the lines of the Third World Centre for Water Management in developing countries?

It appears that the world as a whole does not like independent institutions, with no dogmas, vested interests or subservient attitudes. When we started our Centre, we started with one simple philosophy: anything we do must be based on facts, figures and objective analyses. We do not accept any funding unless we have a priori agreement with our funding institutions that our results will be available to anyone who is interested. If something does not work, we say bluntly that it is not working, and the reasons as to why it is not working. We then suggest cost-effective alternatives which are likely to work. This philosophy does not go well with most international organisations, which have their own bandwagons and pre-determined solutions. For example, when after extensive analyses in South and Southeast Asia, we concluded that integrated water resources management (IWRM) is not working in this region, and will NOT work for many countries like India for large to medium-size projects, it upset many donors, who are now using IWRM as their *mantra* as an universal solution for all the water problems of the world. When we found out that integrated

river basin management is not working in Latin America, irrespective of the widespread rhetoric of the international and bilateral institutions, it upset many donors who had already decided that this is the only solution. Similarly, when we estimated that the Fourth World Water Forum held in Mexico City, in March 2006, cost an incredible US\$205 million, but will not provide access to clean water to even one single person, or change the water policy of even a single country, or increase our knowledge base even very marginally, many institutions and individuals associated with the organisation of this mega-conference became very upset. Many of the supporters of these events agree with us in private.

As an Under Secretary-General of the United Nations told me not so long ago "We agree with you, but do you have to say all these things in public?" The Centre has absolutely no interest in being "politically correct": we want to ensure that we are only "correct." In addition, our public and private views are always the same. Because we have concluded that many of the existing popular paradigms like IWRM, IRBM or private sector participation are not working in many parts of the world, or mega-conferences are neither cost-effective nor producing any perceptible impacts, many bilateral and multilateral funding institutions are getting upset at our findings, even though they are factually correct. These institutions would prefer to fund other groups, who a priori accept (and thus will justify) their current thinking, dogmas, programmes and hidden agendas.

Fortunately, we have several funding supporters who are not interested in activities but in results, and they would like to see visible impacts of their projects in improving the quality of life of the poor people all over the world. While we have absolutely no problem in funding the activities of our Centre, it is likely to be time-consuming to establish similar independent think tanks in other parts of the world, especially when our findings point out that many of the existing ideas of water management that are being pushed by the donors and international institutions are not working, and are unlikely to work in the future. It will be fair to say

that the work of our Centre has earned us respect, but we are not popular with many donors, especially when our studies clearly indicate that their ideas are wrong and their solutions are not working.

On the positive side, the world outside is appreciating the work of our Centre. For example, this year, within a period of three months, I received the Stockholm Water Prize, the prestigious Aragon Environment Prize of Spain and the Man of Year Award from Prime Minister Harper of Canada. All these awards are a recognition of the quality of work of our Centre and its global impacts. We are now seriously considering as to how the philosophy of our Centre and the modalities of our operation to ensure consistent good and usable outputs can be duplicated in other parts of the world. We shall probably opt for helping other dedicated and competent individuals to establish similar type of Centres in other parts of the world.

These will probably be independent and stand-alone Centres rather than branches of our Centre. The first similar institution has just begun to function: it is the International Centre for Water in Zaragoza, Spain. Our Vice President, Dr. Cecilia Tortajada, is the Director of this new Centre, and she will spend halftime in Spain and half-time in Mexico. We are confident that this arrangement will work, but we shall closely monitor the results for the next few years.

You have an Asian origin and Canadian citizenship, but you have chosen to settle in Mexico. Why?

The reason for settling down in Mexico is personal. My wife, Cecilia Tortajada, is a Mexican, and because of her family commitments, initially we had to stay in Mexico. However, establishing the Centre in Mexico has proved to be a mixed blessing. Because of the way we work, it will be a simple process to move our Centre from Mexico to any other country, as long as the location has very good communication and transportation facilities. We are now seriously considering the possibility of relocating our Centre, and we discussing this possibility with two countries.

What do you plan to do with the prize money?

This is a very simple question to answer! Prize amounts from both the Stockholm Water Prize and the Aragon Environment Prize have been earmarked for use as core funding for our Centre. We have no problem in getting project funding; in fact, we regularly refuse to accept several projects, primarily because we do not have interest or expertise in the subjects and/or the countries. However, it is very difficult to get core funding. Thus, these two prizes will help us to replenish the core funding of our Centre, as will other future prizes.

Is there any message you would like to give to the executives and professionals of the water sector?

First, many Asian countries like India, Malaysia, Singapore or Thailand now have very good cadre of experienced and knowledgeable water professionals. They will be much better off in the long run if they use the expertise available in the country first, before accepting foreign experts willy-nilly for national or foreign-funded projects. Only when the necessary expertise is not available in the country, advice of good and competent foreign experts should be sought. These will bring the countries substantial benefits over the long run. Second, developing countries must not fall prey to the current syndrome of what I call solution-in-search-of-a-problem approach which is now very popular with the donors and international institutions.

A solution is found that has worked in one country, and new problems are being sought in other countries to which the same solution could be applied, irrespective of totally different boundary conditions. This practice is now widespread and it mostly does not work. One should always start with an objective analysis of a specific problem, including assessment of boundary conditions within which the solution would have to be applied. This elementary approach will invariably result in a better solution. One size does not fit all.

MOVING THE MULTILATERAL TRADE REGIME FORWARD

*An inclusive multilateral trade regime must build in flexibility in order to avoid a deadlock in multilateral negotiations with attendant adverse effects on the substantial gains that multilateral disciplines in the area of international trade have achieved. According to UNCTAD's latest **Trade and Development Report 2006**, failure to provide flexibility might lead to increased doubts by influential segments of civil society as to the legitimacy of the multilateral trading rules and disciplines at large. In the following extracts from the report, from the section 'Rules and commitments in the multilateral trade regime', the report examines possible options of moving the multilateral process forward.*

The GATT/WTO provides negotiated, binding and enforceable rules and commitments that constitute the multilateral trade regime. The resultant certainty and predictability of international trade are arguably key benefits of this regime. Moreover, the core principle of non-discrimination, as embodied in the most-favoured nation (MFN) rule, provides that trade concessions given by one member to any other member will be extended to the entire membership. This kind of reciprocity is an essential component of any system of global collective action. The WTO dispute settlement process is intended to protect members from unilaterally imposed restrictive trade policy measures, which is of particular importance for weak countries that otherwise could face undue pressure from economically or politically more powerful countries. To the extent that this regulatory system functions effectively, it is an important tool for development because it minimizes the risk of disruptive changes in trade flows. Moreover, the GATT/WTO rules have granted developing countries important exceptions regarding both the MFN rule, by allowing them to enjoy preferential and more favourable market access, and the reciprocity principle, by allowing them to grant developed countries less than full reciprocity in multilateral trade negotiations.

Thus the multilateral trade regime, in principle, provides a framework for an orderly, rules-based system of international trade, with appropriate checks and balances, arbitration of inter-State disputes and determination of the sanctions to be applied. However, de facto this regime has been under increasing pressure to expand the number of areas regulated by multilateral disciplines and to

move towards the establishment of a homogeneous regulatory framework. However, such a move would not adequately take into account asymmetries existing among the different actors in the world economy.

A variety of factors have contributed to this development. First, many developing countries perceive that the so-called "trade-related" agreements of the Uruguay Round, which were discussed in chapter V, commit them to renouncing the policy autonomy that both the mature and late industrializers had enjoyed during their periods of economic catch-up. They believe such autonomy to be indispensable for maintaining an appropriate degree of flexibility in multilateral commitments that would give them the option to adopt national support policies which other countries have used to accelerate industrial development and technological catch-up, even if they may not currently have the intention or the budgetary and institutional resources to use that option.

Second, developing countries accepted new commitments stemming from these "trade-related" agreements (notably TRIPS) as part of the grand bargain of the Uruguay Round in exchange for improved access to developed-country markets of interest to developing-country exporters, particularly agricultural goods and textiles and clothing. But progress in this area (particularly in agriculture) has fallen short of expectations, while new forms of selective protectionism have gained in importance. Imbalances in the outcome of the Uruguay Round Agreements are reflected, *inter alia*, in numerous implementation-related issues and concerns (Finger and Schuler, 2000).

From this perspective, the global partnership for development between developed and developing countries has not materialized, and developing countries have expressed concerns about the failure of the Uruguay Round to deliver fully the benefits that had been estimated by various international organizations (OECD, 1993; World Bank and OECD, 1993) before the end of the Round.

Third, the perception of continuing asymmetries biased against developing countries has been reinforced by the reinterpretation of the principle of "special and differential treatment" (SDT). Prior to the Uruguay Round Agreements, the case for SDT was couched in developmental terms, notably that it would be undesirable for developing countries to pursue policies and subject themselves to disciplines that may be sensible for developed countries owing to differences in their economic structure and levels of development. By contrast, the main concern of SDT since the conclusion of the Uruguay Round appears to have been that of assisting developing countries in implementing the WTO disciplines (Whalley, 1999). Thus developing countries are offered extra time and technical assistance to enhance capacity in order to facilitate their adjustment. As noted by Hoekman (2005: 406), it is now recognized that these provisions are inadequate "as these are arbitrary and are not accompanied by or based on an objective assessment of whether (and when) implementation of a specific set of (proposed) rules will be beneficial to a country."

Fourth, WTO negotiation procedures have often given the impression of less than full transparency and participation, so that some countries ap-

pear to have stronger influence than others. Decisions taken in so-called "green room" meetings or in other gatherings of a limited number of members are often presented to the entire membership as *fait accompli*. These procedures may have resulted from well-intentioned attempts to preserve practicality and efficiency in complex decision-making. However, they have prompted concerns about unequal influence and unequal representation of national priorities in processes the results of which affect all participants. As such, the increasing difficulty in reaching decisions on the basis of equal participation of all members is intimately linked to the growing number of WTO members.

Indeed, the increasing participation of developing countries in the multilateral trade regime, which dates back to the Uruguay Round, has given universality to multilateral rules and regulations in the area of international trade. It has brought together countries that may not necessarily be "like-minded", as was the case when the GATT was founded. As noted by Kleen and Page (2005: 48) "if the WTO members now accept that the organization should aim for universal membership, in order to ensure that the benefits of certainty and predictability apply to all trade by its members, then both the possibility that some countries are permanently 'different' and the certainty that some will not share the same approach to all rules imply that the WTO must either limit its rules to those that can benefit and be accepted by all members or allow permanent derogations for countries with different economies or different approaches to economic policy." The Task Force on Trade (United Nations Millennium Project, 2005: 185) notes that designing generic rules is particularly difficult when it comes to behind-the-border policies, and suggests that agreements in this area should be flexible and encourage experimentation, learning and competition (similar to the flexibilities envisaged in the GATS architecture).

Hence an inclusive multilateral trade regime must build in flexibility in order to avoid a deadlock in multilateral negotiations with attendant

adverse effects on the substantial gains that multilateral disciplines in the area of international trade have achieved. Failure to provide flexibility might lead to increased doubts by influential segments of civil society as to the legitimacy of the multilateral trading rules and disciplines at large.

So how can the multilateral trade regime move forward? Further discussions and negotiations at the multilateral level will need to explore a range of options. As noted, for example, by Rodrik (2001), if the multilateral trade regime is to maximize the development potential of developing countries, the criterion by which rules and commitments governing global trade are judged should be whether they appropriately fit a trade dimension to the development needs and goals of developing countries, rather than whether they

maximize market access and international trade *per se*.

It is likely that this exploration of options will aim at creating a new framework or new guidelines for SDT in the WTO, as noted, for example, by Kleen and Page (2005), Hoekman (2005) and Singh (2005). The Doha Ministerial Declaration (paragraph 44), reaffirming the importance of SDT by stating that "provisions for special and differential treatment are an integral part of the WTO agreements" also called for a review of SDT provisions with the objective of "strengthening them and making them more precise, effective and operational".

Establishing a new framework would probably need to start from the recognition that SDT for developing countries means redressing structural imbalances, rather than giving concessions. From this perspective, developed countries would need to agree to move to a new framework or new guidelines for SDT without receiving any concessions in return. This could also be considered one of the tasks for developed countries to undertake within the global partnership for development.

There are, in principle, two options to reflect differences among countries

in their structural characteristics or approaches to economic policy (see, for example, Kleen and Page, 2005; and Hoekman, 2005). The first option is to adopt a country-specific approach that would allow member countries to selectively opt out of specific rules and commitments, depending on their specific national priorities. Different variants of this option have been proposed, *inter alia*, by Rodrik (2001) and Singh (2005). The basic principle of this option would be to provide flexibility for developing countries to seek some latitude in the application of multilateral disciplines consistent with the pursuit of national development goals. Singh (2005), for example, argues that prior to the single undertaking adopted for the Uruguay Round Agreements, SDT allowed countries to follow different paths towards development as there was no requirement for each country to follow all the rules. He suggests a re-conceptualization of SDT which would allow developing countries to subscribe to certain portions of multilateral agreements as they develop, without the obligation to commit to all portions at once.

This option would ensure that each developing country has the flexibility to determine independently the scope of multilateral disciplines which it wishes to implement, and thus avoid threats of retaliation for non-compliance with disciplines that it sees as constraining its development strategy. It would also leave intact the current practice of leaving individual countries to determine whether they should invoke SDT. However, its major drawback is that it would effectively result in a multi-track multilateral trade regime, thus conflicting with the basic rule of non-discrimination and complicating adherence to the consensus based norm of the multilateral trade regime. Moreover, it runs the risk of leading to a proliferation of specific agreements, with disciplines that may well go beyond the desired scope of developing countries for many years to come. Thus countries that opt out will not enjoy the benefits of existing multilateral disciplines, and might not be able to renegotiate them once they decide to sign on to a specific agreement.

The second option is to adopt an agreement specific approach that would set specific criteria for individual agreements to determine whether members could opt out of the application of negotiated disciplines for a limited period of time. A major difficulty of this approach is to determine whether the exemptions from the specific agreements should be defined before discussing which countries would be entitled to them, or the other way round. Regarding country selection, the criteria used could include a variety of economic indicators relating to countries' levels of development.

As with the first option, following this second option would also lead to differentiation between developing countries. However, contrary to self-selection, as in the first option, in this case differentiation would be based on objective criteria. As noted by Kleen and Page (2005), determination of the kinds of criteria used and the specific levels chosen would need to be the outcome of negotiations, which would have to strike a balance between a country's needs and the potential damage inflicted on other members by relaxing an agreed rule.

According to Das (2003), the provisions on SDT need to become an integral part of the WTO rules and disciplines, rather than being treated as exceptions as at present. Das (2003: 186–187) argues that the main goal of the GATT/WTO system is to ensure a fair sharing of the benefits from liberalization of trade in goods of services. Therefore, the protection of intellectual property rights (and, thus, the TRIPS agreement) should be taken out of the WTO system and placed in either the World Intellectual Property Organisation (WIPO) or a separate organisation of its own.²⁷ Moreover, in order to enhance the impact of developing countries' trade integration on the development of their domestic productive capacity, Das (2003: 190–191) argues that developing countries should be allowed to impose domestic-content requirements on firms, which are now prohibited under the national treatment principle of the TRIMS agreement and to subsidize selected economic sectors. With regard to the Agreement on Subsidies and Countervailing Measures, this proposal implies that member States could consider setting aggregate limits to subsidies that WTO member governments can use while allowing them flexibility in

the allocation of subsidies to firms and economic sectors, as proposed by Akyüz (2006).

Multilateral trade negotiations could determine the aggregate limit on subsidies, as well as its reduction over time, while maintaining allocative flexibility. Such a scheme would be similar to the provisions on Aggregate Measures of Support (AMS) for agriculture, under which WTO members have set targets for percentage reductions while leaving considerable flexibility to member governments in the allocation of reductions across different agricultural products. It would also allow governments to modulate the sectoral pattern of domestic support policies.

The options suggested here are intended simply to sketch out some possible ways forward. There may well be other options. Moreover, what will eventually be adopted will need to result from multilateral discussions and negotiations. What is important at this point is to recognize that the wide disparity in structural characteristics and approaches to economic policies among the membership of a universal WTO requires greater flexibility.

WORLD BANK AND IMF CONDITIONALITY: A DEVELOPMENT INJUSTICE

There needs to be a radical re-think of the conditionalities that the World Bank and the international Monetary Fund IMF attach to their development finance to the world's poorest countries. A recent report by Eurodad (the European network on debt and development) finds that poor countries are being imposed an unacceptably high and rising number of conditions. Most of the countries assessed had privatization-related conditions. Such conditionalities raise serious questions of eroding policy space for countries most in need of it to guide their economic development. Following are extracts from the report.

World Bank Conditionality ..Too many conditions...

Eurodad research found that 14 out of the 20 low income countries it assessed have more than fifty conditions attached to each of their current World Bank grants. And 3 out of the 20 have more than 100 conditions. Uganda, where 23% of all children under 5 are malnourished, faced the highest number of conditions out of the 20 countries

assessed, with 197 conditions attached to its World Bank development grant in 2005. The Ugandan Government faced 87 social and environmental conditions followed by 72 public sector reform related conditions and finally 35 financial and economic reform conditions.

...and rising

Not only are there too many conditions, but the number of conditions

that the Bank is imposing on low income countries is rising not falling. Conditions contained within current and previous World Bank loans across the 20 countries Eurodad assessed have risen on average from 48 per loan to 67 per loan between 2002 and 2005.

There has been a rise in both the number of conditions which are prior actions (which must be completed before a country gets access to development

finance) and the number of benchmarks (conditions which must be completed during the course of a given financing period).

The World Bank argues that the dramatic rise in the number of non-binding conditions is relatively benign as this type of condition does not hold up development finance if a country does not implement it. Following this logic, the World Bank does not officially count benchmarks/non-binding conditions as conditions. This convenient classification by the Bank fails to take account of how recipient governments perceive non-binding conditions and most importantly respond to them.

According to a World Bank survey last year 77% of developed country recipients thought that their country had to comply with all the benchmarks [non-binding conditions] in a policy matrix. On top of this, even if these conditions do not automatically stop development finance flows if they are not met, they do place a massive administrative burden on developing countries which have to monitor and report on their progress as part of a World Bank assessment.

In addition, our study also found a rise in the number of binding conditions, which do hold up crucial finance for poor countries. This contradicts the findings from the World Bank conditionality review last year, which actually found a decline in the number of binding conditions imposed on developing countries. Amongst the countries Eurodad assessed two countries had loans that were made up entirely of these types of conditions: Vietnam and Armenia. The Vietnamese Government, which has 29% of its population living under the poverty line had to fulfil 41 policy conditions before it was entitled to access one cent of its World Bank development grant in 2004.

More recently, Armenia had to fulfil 39 conditions before it could receive its World Bank development grant in 2005. Despite the fact that both these countries have enormous numbers of poor people, who depend on external assistance, the World Bank continues to withhold lending until poor countries have fulfilled an extraordinarily high number of conditions.

..Inappropriate Conditions: Micro-Management Gone Too Far

Inappropriate conditions can prevent much needed aid reaching some of the world's poorest countries desperately in need of help. Our research revealed a high prevalence of micro-management conditions in World Bank lending, revealing an inability by Bank staff to prioritise conditionality and make rational judgements as to what should or should not constitute a condition in development finance. For example, the Burkina Faso Government, where just under 10% of all women aged between 15-24 are HIV positive, was forced, before it could gain access to its World Bank development finance in 2005 to "*purchase software and train agents in procedures on the new software*" in relation to the implementation of a government property accounting system. The Republic of Mali, where over 100 of every 1000 children die as infants, was pushed as a condition of its development finance in 2005 to move one of its government offices to a new location; "*Move the Land Management Unit to the CEO's Office*". This is hardly what one would imagine constitutes a vital development finance condition. The Ugandan Government found that to access its development finance in 2005 that it had to "*review and approve its school sports policy for tertiary schools.*"

The World Bank has been forced to acknowledge the burden that conditionality imposes on developing countries and made some ad hoc attempts to streamline the number of conditions it imposes. For example, the Bank's new guidelines for development policy lending, employ the concept of 'criticality'. This is meant to confine the Bank to setting only conditions that are deemed critical for the implementation and expected results of a country program. However while the Bank is happy to continue imposing binding conditions on recipient countries, the guidelines for its staff are vague and non-mandatory. The concept also currently only applies to binding conditions.

..Tying Development Finance to Controversial Economic Policy Conditions

In addition to inappropriate conditions, the World Bank is continuing to impose

a significant number of controversial economic policy conditions on low income countries through its development lending. According to our research 20% of all World Bank conditions for poor countries are economic policy conditions. And over half of these (11%) impose some sort of privatisation and trade liberalisation. Economic policies such as trade liberalisation and privatisation can often have a harmful impact on poor people, limiting their access to vital services. This harmful impact has been recognised in many studies and by the British government and Norwegian government, both of which have formally rejected tying their development aid to privatisation and trade liberalization conditions.

G8 leaders also last year highlighted the importance of national governments sovereign right to determine their own national economic policies. Economic policy decisions like whether to privatise essential services or liberalise trade barriers within any given country – developing or developed - should be made by national governments and not influenced by leverage of increased external funding.

..Privatisation: through the front and back doors

15 of the 20 poor countries Eurodad assessed have privatisation-related conditions as part of their World Bank lending. Our research also found that the overall number of privatisation-related conditions is rising not falling. Conditions contained within current and previous World Bank loans across the 20 countries Eurodad assessed have risen on average from 4 per loan to 5 per loan between 2002 and 2005.

For some countries privatisation-related conditions make up a substantial part of their overall conditions. For example, just under one third of all of Bangladesh's conditions within its second Development Support Credit granted for 2005 were privatisation-related (18 out of 53). Bangladesh, where over 50% of the population live under the poverty line, faces direct conditions calling for privatisation of its banks, electricity and telecommunications sectors and additional reforms to the gas and petrol sectors that will facilitate private sector involvement. Just under one quarter of the conditions contained within Ar-

menia's development finance for 2005 from the World Bank are privatization-related (9 out of 39). Other countries that face a high number of privatisation conditions include Honduras and Nicaragua. About one in every seven of Honduras's conditions (11 out of 72) in 2004 were privatisation-related and about one in every ten of Nicaragua's conditions (10 out of 107) in 2003 were privatisation-related.

Our research reveals that though the number of conditions which call for direct privatisation has actually marginally declined between previous and current World Bank loans there has been a massive increase in the number of conditions that push for reforms associated with facilitating privatisation i.e. regulatory reforms, restructuring of certain sectors and corporate reform. The number of 'privatisation associated reforms' have almost doubled between previous and current World Bank loans across the 20 countries assessed. For example, Armenia has nine privatisation associated reform conditions, despite having no actual privatisation conditions attached to its second poverty reduction support credit. These range from the demand to "*Initiate railway company reforms (to get ready for commercialisation)*" to demanding that the Armenian parliament "*enact a new telecommunication law and a modern regulatory framework {to} ...allow for progressive licensing of additional service providers*".

The World Bank recognises this type of condition in its review and the rise in their number, which it attributes to greater recognition by the Bank about the importance of a conducive regulatory environment as the key to successful privatisation. Together, conditions which call for direct privatisation and those that push for associated reforms have risen substantially.

..What is being privatised? Utilities top the agenda

Our data reveals that the World Bank's privatisation conditions focus most heavily on pushing utility privatisation. This supports findings from the World Bank's own review last year. If one breaks down utilities, telecom privatisation (categorised under SOE reform in the chart) makes up the largest share of privatisation conditions with 6 out of the

11 countries facing this as a condition of a World Bank development credit. Energy privatisation (electricity, gas and oil) is the second most popular area under utilities. Water privatisation is far less prominent, though Uganda, as part of its current fifth poverty reduction support credit has a condition calling for the Government to provide a private supply chain for its water country wide. The reason for falling water privatization conditions may well be that the Bank has already succeeded in privatising water in most of these countries. Bolivia and Mali both have water privatisation conditions attached to their World Bank credits in the last five years.

..Undermining Ownership

It is now fully accepted that development must be home grown, with policies fully owned by developing countries in order to work, rather than imposed from the outside. Many World Bank documents acknowledge this point. The Bank's new good practice guidelines for development policy lending, for example, call for conditions that reinforce country ownership by being drawn from country's expressed policy intentions. Our research, however, reveals that the Bank is continuing to impose these often controversial economic policy reforms on poor countries, even when they are not clearly expressed within country's own national poverty strategies. For example, four countries out of the eleven that have privatisation conditions imposed by the World Bank in their current loans, do not mention the privatisation policy in their national poverty strategies.

These findings lend weight to the World Bank's own conditionality survey carried out last year, which revealed that 50% of recipient countries felt that the "*World Bank introduced elements that were not part of the country's program*" into their loan conditions. They also support research undertaken last year by the Debt and Development Coalition on World Bank conditionality in Poverty Reduction Support Credits. The study found numerous examples of controversial World Bank conditions which were not mentioned in countries' own national poverty reduction strategies.

The above is especially worrying given that national poverty reduction strategies have often been heav-

ily influenced by the World Bank and other financing agencies, and thus do not always reflect the wishes of governments and citizens. A World Bank survey carried out last year on recipient government's views on conditionality found that over a third of countries noted that negotiations with the World Bank significantly modified their original policy program.

..World Bank still imposing trade liberalisation on poor countries

Four out of the twenty countries Eurodad assessed had some form of trade liberalization conditions: Uganda, Rwanda, Benin and Armenia. Armenia has a binding condition on its current World Bank loan that calls for prices to be in line with World Trade Organisation rulings; whilst Bangladesh has a condition calling for quantitative restrictions to trade imports on sugar to be removed; and Rwanda has a condition that it must join the East African Trade Agreement and Uganda to submit a World Trade Organisation bill to parliament.

However, overall our research notes that trade related conditions only constitute 3% of all World Bank conditions to Low Income Countries and conditions directly relating to liberalisation constitute only 1%. The World Bank Conditionality Review also found that trade related conditions now account for less than 2 percent of the total number of conditions imposed on low income countries."

..Public sector reform conditions

There is a consensus amongst a majority of civil society groups that governance does matter for development. The question is whether the World Bank is the right agency to assess and push for governance reforms in developing countries and whether conditionality is the right vehicle to address this important issue. No one is disputing the need for basic fiduciary conditions on loans, but attaching more deep-seated reforms that deal with long term institutional changes is far more questionable. A recent evaluation of general budget support by International Development Department (University of Birmingham, UK) noted that "there is no consensus....

that political conditionality should not be specifically linked to budget support or any individual aid instrument, but should rather be handled in the context of the overarching policy dialogue between a partner country and its donors”.

Our research found that by far the largest number of conditions pushed by the Bank relate to public sector reform policies. 43% of all World Bank conditions attached to poor countries loans are public sector reform-related. These conditions push a range of policies: anti-corruption, civil service reform, public finance management, judicial and legal reforms and enhancing civil society monitoring and evaluation powers. All the countries assessed by Eurodad have public sector reform conditions within their current loans with the World Bank. Conditions which push for public finance management and tax reforms constitute just under half of all public sector reform conditions. Though in principle more transparent and accountable public finance management is vital for development, civil society groups have aired concerns that many public finance management conditions push economic liberalisation through the back door.

..Social and environmental conditions

Some 37% of all World Bank lending set social and environmental conditions. These types of conditions could in principle help ensure that development finance has a positive and beneficial impact on poverty reduction and the environment. A detailed analysis of these types of conditions is beyond the scope of this report. However, our brief examination raised concerns about intrusive micro-management of detailed policy areas. The Rwandan government was asked to “prepare a strategy for promoting improved hygiene practices in 184 rural public schools and in households” – almost certainly worthwhile, but scarcely what you would expect as a condition for a national PRSC (poverty reduction strategy credit) loan. The number of such conditions (averaging 24 per loan) also makes it unlikely that they are all priorities or will all be implemented.

..Perverse Incentives: more conditions for good performers?

Not only are there too many conditions and many are harmful, but it appears that there is no rationale behind which countries get the most conditions and which get the least. The World Bank claims that development funds are distributed to countries that have a ‘*favourable development climate*’, rewarding those countries that the Bank deems to be good performing countries with greater volumes of lending. In order to assess whether a country has a ‘*favourable development climate*’ the World Bank assesses countries’ policy and institutional framework on an annual basis to see whether it fosters poverty reduction, has sustainable growth and has the ability to effectively use development assistance. It does this using a Country Policy and Institutional Assessment (CPIA) tool, which scores countries on a number of set criteria.

Eurodad and other civil society groups are highly critical of aspects of the CPIA approach adopted by the Bank, highlighting that the criteria by which the Bank judges a country’s performance gives too much weight to economic liberalisation policies and applying a one size fits all approach to development.

IMF Conditionality

..High number of structural conditions

By the Fund’s own admission there was a proliferation in the number of structural conditions in the 1990s. After pressure from civil society groups, the IMF made attempts to reduce this burden. In 2002 it launched new conditionality guidelines. These called for a streamlining both in terms of the number of conditions imposed and the number of areas in which the Fund imposes policy reform, in order to avoid ‘mission creep’. The guidelines also called for conditions to be more country-owned. A recent study last year of the success of these guidelines within Fund conditions, claimed to show a largely positive picture.

Eurodad research, however, reveals that countries still face an extremely high number of structural conditions. On average, our data showed that countries face around 11 structural conditions per PRGF (poverty reduction growth facility) review. Our data also

found that there is a large disparity in terms of the number of structural conditions each country faces within a PRGF loan. This backs up previous Eurodad research on IMF conditionality in 2003, which found that those countries that followed IMF orthodoxy had fewer conditions imposed.

Over one third of the countries Eurodad assessed (5 out of 20) faced over 11 structural conditions within their most current PRGF review. Nicaragua, a country where just under 50% of the total population live under the poverty line, faced the most structural conditions with 25 in total as part of its development finance in 2004. This included 17 public sector reform-related structural conditions pushing reform in public finance management, 7 financial and private sector reform conditions and one privatization condition calling for the government to divest its stake in ENITEL, the Nicaraguan telecommunication company.

A study undertaken by Danish Institute for International Studies noted that Nicaraguan citizens protested at the rise in consumer prices and poor quality of services related to telecommunications companies, following its privatisation. This highlights the unpopularity and often harmful impact of privatisation. Vietnam also had a high number of structural policy conditions – some 17 structural conditions were listed in its 2002 IMF development finance loan.

However, even in more recent PRGF reviews carried out in 2005/6 there are still countries which face high numbers of structural conditions attached to their development finance. Burkina Faso, where 38% of children under five are malnourished, faced 14 structural conditions as part of its development finance from the IMF in 2005; Benin and Niger 13 each as part of their development finance loans in 2005 and 2006 respectively.

..And rising

Since 2002 when the IMF issued new staff guidelines to reduce the number of conditions it imposes, structural conditions in PRGF loans have risen not fallen. The number of structural conditions contained within an IMF PRGF loan across the 20 countries Eurodad assessed has risen on average from 10

per loan review to 11 per loan review between 2002 and 2006. This contradicts findings from the IMF review of conditionality last year, which found that structural conditions had been streamlined within PRGF programs.

..Binding conditions make up almost half of all IMF structural conditions

On average, Eurodad research found that half of all IMF structural conditions imposed on poor countries via the PRGF are binding conditions. The IMF imposes not just prior actions on poor countries (policy reforms that have to be acted upon prior to receiving funds) but also performance criteria (policy reforms that have to be acted upon during one year of a PRGF in order to gain access to the next year). The proportion of binding conditions has stayed relatively steady over time.

..IMF still imposing controversial economic policy conditions

Our research revealed that the IMF continues to impose controversial structural economic policy reforms on developing countries. Some 43% of all IMF structural conditions focus on economic policy reforms, according to Eurodad research. And of these, half are privatisation-related.

12 out of the 20 poor countries Eurodad assessed faced privatisation-related conditions as part of their recent development finance with the IMF. On average one fifth of all structural conditions per PRGF review impose some form of privatisation. Vietnam faced the highest number of privatisation structural conditions of all twenty countries assessed. Over half of its structural conditions (9 out of 17) within its IMF development finance in 2002 imposed privatisation. All were related to privatising state owned enterprises and pushing for banking reform. In 2004, the Vietnamese government terminated its lending with the IMF, because it found that the Fund's structural conditions calling for the State Bank of Vietnam to be audited by a foreign company was not permitted under Vietnam's current laws.

Benin, where only 34% of the adult population (above 15%) is literate, had over half of its IMF structural

conditions (7 out of 13) related to privatisation in 2005. These conditions imposed energy, telecoms and cotton privatisation on the Benin population and pushed for port reforms in order to facilitate privatisation. Mali, where 64% of the population live under the national poverty line, had almost two thirds of its IMF structural conditions (7 out of 11) imposing privatisation in 2005. These pushed for banking and telecommunication privatisation and reforms in energy and agriculture which are associated with privatisation.

Eurodad research found that the number of privatisation conditions imposed by the IMF has remained steady at 2 per PRGF review across the 20 countries assessed between 2002 and 2006.

..What is getting privatised?

The large majority of privatisation conditions are focused around banking privatisation. Nine out of the 11 poor countries facing privatisation conditions from the IMF had some form of banking privatisation imposed upon them. Energy privatisation was the second most popular area of reform for the IMF. Our research found no evidence of the IMF imposing water privatization.

..Public Sector Reform Conditions

Fifty six per cent of all IMF structural conditions attached to poor countries' loans are public sector reform related. As is the case with the World Bank, there are serious concerns amongst civil society groups over whether the IMF is the right agency to be getting involved in instigating reforms such as decentralization or civil service reform and more importantly whether conditionality is the right vehicle to address these issues. All the countries assessed by Eurodad have public sector reform conditions within their current loans with the IMF. Conditions which push for public finance management and tax reforms constitute over two thirds of all public sector reform related conditions. The large majority of this type of conditions was concerned with tax reforms.

Conclusion: Re-Thinking WB & IMF Conditionality

The evidence in this report reveals that current IMF and World Bank conditionality is fundamentally flawed. Not only are these institutions imposing far too many conditions on poor countries, but many of the conditions are at best wholly inappropriate, and at worst, harmful to the poor people and undermine national ownership. Even more worryingly, the picture appears to be getting worse not better with the burden of conditionality rising not falling for poor countries.

The World Bank, in particular, appears unable to curb its appetite for micromanagement, loading countries with policy reforms which show an alarming lack of understanding by staff of what the rationale for conditionality. Controversial economic policy conditionality still constitutes a large percentage of both World Bank and IMF conditions. And the aggregate burden of World Bank and IMF privatisation conditionality has risen between 2002 and 2006. This is despite the fact that these reforms are highly controversial; have been rejected by other development donors as suitable conditions for development finance; often undermine country ownership; and can often increase poverty not reduce it. Economic policy decisions like whether to privatise essential services or liberalise trade barriers within any country – developing or developed – should be made by national governments and not influenced by external funders.

The World Bank and IMF have both introduced guidelines for their staff urging them to limit conditions that are deemed critical. However while the Bank and Fund continue to impose specific and binding conditions on recipient countries, the guidelines for its staff are vague and non-mandatory. They also do not apply to all conditions.

Finally, the rise of public sector reforms, though appearing at first sight seemingly benign, may well be more of a hindrance than a help. Not only are there serious legitimacy questions about the appropriateness of the World Bank and the IMF in pushing these types of reforms, but there is a massive question over whether conditionality is the right vehicle for these types of changes, which often require long term deep structural changes.

The time is right for a radical re-think of World Bank and IMF conditionality.

The World Bank and IMF must:

- ◆ Radically cut the number of binding and non-binding conditions attached to their lending;
- ◆ Immediately stop imposing controversial economic policy conditions which push privatisation

and trade liberalisation related reforms;

- ◆ Redefine 'criticality' to ensure that it focuses on fundamental fiduciary concerns which enhance developing countries citizens' ability to hold their governments to account, rather than develop-

ing countries' accountability to the Bank and Fund

- ◆ Ensure that the concept of criticality is applied to all types of conditions;
- ◆ Stop all forms of duplicate World Bank and IMF conditionality.

SOUTH CENTRE NEWS

Trade for Development

On 27 July, 2006, the TDP staff met:

- with some members of the Small Vulnerable Economies' group in order to discuss their interests and priorities in connection with multilateral as well as regional trade-related research.
- 18 NGOs and 7 representatives from the G-33 Group participated at a working lunch organized by the agriculture team. The purpose of this meeting was to exchange information on the state of play of the WTO negotiations, with a particular focus on the areas of interest of the G-33 members in the agriculture negotiations, such as special products and special safeguard mechanism.

Global Governance

The Programme published and disseminated an Analytical Note titled "Comparative Assessment of Developing Country Participation in the Governance of Global Economic Institutions" (SC/GGDP/AN/GEG/3). The Analytical Note was prepared for distribution at, and seeks to contribute to the discussion in, the XXIII Technical Group Meeting (TGM) of the Intergovernmental Group of Twenty-Four (G-24), to be held on 13-14 September 2006 in Singapore.

Innovation, Access to Knowledge and Intellectual Property

The Programme staff:

- Announced the launch of the South Innovation Perspectives Series Seminar. The quarterly seminar aims to provide a forum where cutting-edge research and ideas on innovation, access to knowledge and intellectual property, from a development perspective, are presented and debated. Speakers include researchers and policy analysts especially from the South who focus their work on key issues for developing countries. The first South Innovation Perspectives Series, to be held on 4 September 2006 in Geneva will host Dr. Padmashree Gehl Sampath, who will make presentation on 'Linking Intellectual Property, Innovation and Development: Some Evidence from the Indian Pharmaceutical Sector'.

Dr. Padmashree Gehl Sampath has been working at UNU-MERIT, (United Nations University Maastricht Economic and Social Research and Training Centre on Innovation and Technology) from the autumn of 2002. She has a doctoral degree in Law and Economics, and her research specialization is on issues of innovation and intellectual property, with a particular emphasis on pharmaceuticals, and other issues relating to the global protection of intellectual property rights in developing countries. She actively participates in international

discussions around the TRIPS Agreement and issues of capacity building in developing and least developed countries.

- Participated on the Annual UNISA-Centre for Business Law Commercial Law workshop on 17 August 2006. Presentation covered a number of issues including: technological upgrading and socio-economic development from a historical perspective and the approach in the TRIPS Agreement; the emerging challenges in regulating a trans-national system of innovation in the 21st Century and the emerging sectoral evidence regarding intellectual property and development.
- Attended the Intellectual Property Day organized by the Association pour la promotion de la propriété intellectuelle en Afrique (APPIA), at Yaoundé from 9-10 August 2006. Presentation on 'International Limitations and Exception to Copyright.'
- Also participated at the strategy meeting organized by the Center for International Environmental Law on 22 August 2006 to discuss a framework for future action on Intellectual Property and Free Trade Agreements, and Sustainable Development issues.
- Made presentation on critical reflection on the health impact of trade agreements at the 'Geneva Forum: Towards Global Access to Health' held on 31 August 2006.

EDITORIAL

WILL THE DOHA ROUND DELIVER FOR THE MDGs?

At the dawn of the millennium, World Heads of State met at the United Nations in New York for the millennium summit, and unanimously agreed to the Millennium Declaration, which embedded 8 UN Millennium Development Goals (MDGs). The MDGs signalled a cooperative North-South effort to achieve modest targets to meet the needs of the world's poorest nations by 2015. *"We will spare no effort to free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty,"* our leaders pledged. They also made known their desire to *"strengthen good governance at international level, transparency in the financial, monetary and trading systems"*, including a commitment to *"an open, equitable, rules-based, predictable and non-discriminatory multilateral trading system"*.

MDG number 8 calls for the "global partnership for development". A key target of this goal is to develop an open, non-discriminatory trading and financial system. This is a very important goal, as it acknowledges accountability from both the North and South for the situation of poverty in the world today. This collaborative effort has been viewed by the UN Secretary General, Mr. Kofi Annan, as one that can greatly benefit from the "global compact"; which is an international initiative, albeit voluntary in nature, born in 1999, that brings to-

gether the United Nations, international organizations, civil society, private business, trade unions and others. The core areas in this partnership are international trade, debt sustainability, and development assistance. It is widely accepted that trading out of poverty is a more potent and effective tool compared to reliance on Aid.

At the 4th WTO Ministerial Conference, in November 2001, the "Doha Development Agenda" was launched. This Round presented an opportunity to correct international trade imbalances that for decades have put developing countries at a disadvantage vis-à-vis their developed partners. Putting the development needs of developing nations at the centre of trade negotiations was the condition on which the developing countries agreed to a broad round of negotiations. In the history of multilateral trade negotiations, normally concerned with exchange of tariff concessions, 'development' appeared as a thematic novelty.

After nearly five years of the Doha Round negotiations, it has become clear that the sticky issue remains agriculture. The rich industrialised countries are not forthcoming in putting forth bold and meaningful proposals for the reduction of trade distorting subsidies. Agricultural subsidies not only cause structural injustices in international agricultural trade, but also wipe out millions of livelihoods in countries of the South. It is well known that agriculture is the biggest and most important economic sector in poor countries; particularly in sub-saharan Africa. For the MDGs, it means that in the sector which predominantly provides the bread and butter of people in the developing world, the international trade regime is sluggish in its reaction to get people out of poverty. Indeed, pressure to open up their markets to manufactured products and services could worsen poverty.

The developing countries have been asking rich countries to scale down their agricultural distortions through reduced farm subsidies, end dumping practices, provide more market access, and simplify rules of origin, technical standards, sanitary and phytosanitary conditions.

Paying a deaf ear to this, rich countries continue to seek deeper market access from poor countries, not only in agriculture, but also industrial goods. Positions remain entrenched creating the impression that developing countries will have to pay dollar to dollar for each dollar cut in farm subsidies, through increased market access for developed country manufactured goods and services.

The WTO's World Trade Report (2006) estimates that 21 developed countries spent almost \$250 billion on subsidies. This amount constitutes almost 1.4 percent of their GDP, and twice the percentage GDP that Blair's Commission for Africa recommended as necessary for Africa to achieve the MDGs. The situation gets worse when one considers the impact of heavily subsidised commodities like cotton on the livelihoods of farmers in Sub Saharan Africa.

Moreover, many of the world's poor countries had seen it as essential to integrate trade into their Poverty Reduction Strategy Papers (PRSPs). Some cases in point include Zambia and Uganda. In the latter's case, a long standing Plan for Modernisation of Agriculture (PMA) complements this. Absence of an international fair legal regime within which this can operate frustrates prospects of success. Moreover, the major trading nations are moving fast to enter Free Trade Agreements with strategic markets. That means leaving the present unfair trade practices intact, with the added danger of perpetuating the marginalisation of many LDCs, especially in the Sub-Saharan region.

While trade can be a sustainable means to lift economies out of poverty, the terms have got to be fair. The current suspension of the Doha talks guarantees further slippages in attaining the MDGs. But it also provides an opportunity for hard rethink to get the original development objectives of the Doha round back on track. Only then can the Doha round deliver on its development promises and thus help make the rightful contribution of the international trade regime to the achievement of the MDGs.

SOUTH BULLETIN

A publication of the South Centre, an intergovernmental organization of the developing countries

EXECUTIVE DIRECTOR OF SOUTH CENTRE

Prof. Yash Tandon

SENIOR EDITOR

Someshwar Singh

SOUTH CENTRE

PO Box 228, 1211 Geneva 19
Tel. (+4122) 791 80 50
Fax. (+4122) 798 85 31

E-mail: south@southcentre.org
Web page: www.southcentre.org

Articles may be reproduced provided source is acknowledged. The **SOUTH BULLETIN** can also be accessed at www.southcentre.org